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VETERANS' CANTEEN SERVICE

HEARING
BEFORE THE
SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS
OF THE
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
NINETY-NINTH CONGRESS
SECOND SESSION

WEDNESDAY, SEPTEMBER 24, 1986

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VETERANS' CANTEEN SERVICE

WEDNESDAY, SEPTEMBER 24, 1986

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:03 a.m., in room 334, Cannon House Office Building, Hon. G.V. (Sonny) Montgomery (chairman of the subcommittee) presiding.

Present: Representatives Montgomery, Penny, Rowland of Georgia, Gray, Burton, Sundquist, and Ridge.

OPENING STATEMENT OF CHAIRMAN MONTGOMERY

Mr. MONTGOMERY. Good morning. The subcommittee will come to order.

Don Sundquist of Tennessee is here and we will start the meeting.

Our hearing, as you know, deals with the Veterans' Canteen Service. As Members will recall, we had our first substantial oversight hearing on the Canteen Service last September. This was the first hearing since the Service was established by public law back in 1946. At that time we were interested in learning what we could about the Canteen Service, particularly in the areas of proposals to contract out the food service operations under OMB Circular A-76, which we're all familiar with, the then long-rumored reorganization of the Service, and the status of naming a new Director of the Service. We had heard many complaints on these subjects from veterans and employees.

I would summarize that what we learned from the VA as a result of the 1985 hearing was that all of these subjects were in a "pending" status, and at the subcommittee's request the VA would keep us advised of any progress. Without exception, we had received no information on these subjects at the time the decision was made to proceed with this hearing today.

The day following a decision being made to hold this hearing and the VA being informally notified, we did receive a letter from the Acting Chief Medical Director, Dr. John A. Gronvall, dealing with the reorganization of the Canteen Service. I must say that the letter really raised more questions than it provided answers. I hope we can get some of those questions cleared up in our minds today.

At this point, regarding any reorganization in the VA, it is not my intent, or that of the subcommittee, to attempt to tell the Veterans' Administration how to organize and to conduct its affairs, so long as it conforms with the law. Also at this point in time, we

have not been furnished further information on the proposal to contract out some of the food service operations, or on the status of the appointment of a Director of this Service, the position of which has been vacant since March of 1985.

Congressman Sundquist of Tennessee, would you mind reading Congressman Hillis' statement?

Mr. SUNDQUIST. Thank you, Mr. Chairman. This is the statement of our ranking member, Mr. Hillis.

OPENING STATEMENT OF HON. ELWOOD HILLIS

I want to commend you for calling this hearing by the Subcommittee on Oversight and Investigations to follow up on the hearing which was held almost exactly a year ago on the Veterans' Canteen Service.

Also I join you, Mr. Chairman, in welcoming Tom Harvey, the recently-confirmed Deputy Administrator of the VA, on his first appearance before the subcommittee as a witness for the VA. Tom Harvey has won high distinction on the battlefield and in the halls of Government. He is a former chief counsel and staff director of the Senate Veterans' Affairs Committee. He is uniquely qualified to be Deputy Administrator. We wish you well, Mr. Harvey, in fulfilling the great responsibilities of your office and we're confident of your success.

During our last hearing we learned that a reorganization was contemplated for the Canteen Service and its position of Director and other management positions were vacant, that employee morale was low, and that contracting out was being studied for its food service operations. After a year of uncertainty, hopefully we're going to hear that all these things have been resolved or are close to a resolution. No organization can operate very well with its leadership in a prolonged state of limbo. The VA should give high priority to restoring stability to the Canteen Service.

The Canteen Service has operated successfully for many years under its statutory mandate. We seldom hear complaints about it from the veteran patients it primarily serves. We have only heard from Canteen Service employees who are very concerned about the future of the Service and about their own future.

Mr. Chairman, I think in order to justify change in the Canteen Service, the VA ought to demonstrate that the proposed changes will improve service to veterans and be cost-effective. In this regard, at the last hearing the VA said that the Service, which is supposed to be self-sufficient, actually wasn't. If this was so, the question arises as to why the VA did not raise the rent or do whatever was necessary for the Service to fully pay its way.

Finally, Mr. Chairman, I must underscore, as I did a year ago, how important the Canteen Service is to the morale and quality of life of veteran patients in VA hospitals. In that respect, the Canteen Service is important in a way far greater than its relatively small size.

Mr. SUNDQUIST. Thank you, Mr. Chairman, for allowing me to give the statement of Mr. Hillis.

Mr. MONTGOMERY. Thank you for being here, Don. I am sure Bud Hillis will be here in a few minutes.

Tom Harvey, I would like to welcome you. I am certainly glad to have you back onboard. We worked very closely together when you were Chief Counsel or Staff Director for the Senate Veterans' Affairs Committee. You are a combat wounded veteran, you know the job, you know the veteran, and we're looking forward to working with you as the Deputy Administrator of the Veterans' Administration.

I believe this is your first time here under this new assignment. We'll be pretty light on you this first day. Sam Piper is an old friend, a good tennis player, a good tennis partner, and we are certainly glad to see Sam again.

I know we're going to get the Canteen Service straightened but without more hearings. In fact, the whole Government is about to

sink up here, and here we are involved in canteens. We've got to get them straightened out and that's why we are having the hearing this morning.

Mr. Lindsey, it is also nice to have you here. Tom, the Chair recognizes you. Your full statement will be put in the record.

STATEMENT OF THOMAS E. HARVEY, DEPUTY ADMINISTRATOR OF VETERANS' AFFAIRS, VETERANS' ADMINISTRATION; ACCOMPANIED BY ROBERT E. LINDSEY, DIRECTOR FOR OPERATIONS, DEPARTMENT OF MEDICINE & SURGERY; AND MANSSELL G. PIPER, DIRECTOR OF ADMINISTRATION, DEPARTMENT OF MEDICINE AND SURGERY

Mr. HARVEY. Thank you, Mr. Chairman. It is a real pleasure to be here. As you said, this is my first time to have an opportunity to appear before this particular subcommittee and, indeed, before any committee of the House of Representatives. So I am very, very pleased to be here, and very pleased to be here in my capacity as Deputy Administrator of Veterans' Affairs. I thank you for your support over the past years and for your support in my obtaining this position.

You mentioned that I was accompanied by Mr. Robert E. Lindsey, Director for Operations of the Department of Medicine and Surgery, and by Mr. Mansell G. Piper, Director of Administration of the Department of Medicine and Surgery. I am pleased to have them with me today.

I do appreciate the opportunity to appear before this subcommittee to discuss major issues involving our Veterans' Canteen Service, specifically reorganization of the Service, contracting out of the canteen food services, and the status of the position of Director of the Service.

We are pleased to have an opportunity to discuss the reorganization of the Canteen Service. You sought testimony on that subject at the previous hearing in September of last year. I am disappointed, frankly, that a reorganization has not yet been effected, and that VCS employees remain uncertain about the outcome and impact of this long-unresolved issue.

Let me underscore that the Administrator and I are strongly committed to a reorganization of the Service. As you may know, the agency has had a distinguished management consultant conduct an extensive examination of the Canteen Service, culminating in a recommendation that it be reorganized. Their recommendation and internal VA analyses have identified several reasons for reorganizing. One, that the present VCS organizational structure offers limited incentives for innovation and creativity on the part of individual canteen chiefs to respond to local market factors, to VA medical center needs, and to the specific needs of their customers; two, that canteens should be more fully integrated into individual medical centers; and three, that communications between Veterans' Canteen Service Central Office, individual canteens, and medical center management must be improved.

In early July, the Administrator advised the Chief Medical Director that he had approved a reorganization plan in concept, and directed him to form an intra-agency task force to undertake the de-

velopment of a detailed reorganization plan. The detailed plan was recently submitted to the Administrator and is currently under review in our staff offices.

The principal features of the proposed reorganization are, one, the three VCS field offices will be closed at the earliest opportunity and their functions transferred to VCS Central Office and to VA medical centers; two, VA medical center management will be provided greater participation in the operation of medical center canteens. Medical center directors will be the rating officials for canteen chiefs, subject to the concurrence of the director of the Veterans' Canteen Service. Three, management of VCS funds and personnel will be retained by the Director of the Veterans' Canteen Service. Four, the position of Financial Manager, VCS, will be established to provide the VCS with a centralized office to administer its revolving fund, budget, and financial operations. Five, a VCS Planning and Program Evaluation staff will be established to develop and coordinate planning and evaluation activities. Six, a VCS Field Liaison Division will be established to provide VCS Central Office direction, coordination, and accountability for the VCS' canteen operations. And seven, options for placement of the audit function still remain under review.

We recognize that the development of the reorganization plan entailed extensive staff work and painstaking review to ensure that the plan defined clearly the respective responsibilities of the VCS Director, the Department's regional directors, and the medical center directors. Yet we share the frustration of those who have long awaited definitive resolution of this issue. That is the Administrator's goal and one which I believe will result in the most effective possible arrangement.

I might also add, Mr. Chairman, I think probably we have been remiss in not keeping the subcommittee more fully informed of efforts that we have been making in this regard.

The Administrator is also committed to improving, to the extent possible, the efficiency and economy of the canteen food services through the A-76 contracting out process. Seventy-four of the 172 food services have been identified as meeting the requirement for study, namely, that they employ 10 or more personnel.

Since your 1985 hearing, 50 of the 74 food services designated for study in fiscal year 1986 carried out so-called "most efficient organization" studies under the A-76 circular process to ensure that their operations are the most effective and efficient possible preparatory to developing their own in-house bid—the bid which will be compared to bids of outside contractors at bid opening time.

To date, no canteen has reached the bid opening point. Recently the VA, in response to an OMB transmittal, extended the earliest bid opening date to October 30, 1986, to allow all Federal activities affected by A-76 to factor into their in-house bid computations the cost of the new Civil Service Pension Plan. If an outside contractor wins the bid, the contractor will provide personnel necessary to operate the canteen's food service. In that event, the canteen's management staff will be directed to work closely with the contractor's staff to ensure that the contractor operates in accordance with the requirements and quality standards specified in the food service's

performance work statement, the statement upon which the bids are based.

We recognize that the absence of a director has compounded frustrations regarding what direction the Canteen Service may be taking. Let me stress, Mr. Chairman, that filling that position is a high priority and that the Acting Chief Medical Director has assured us that he will present the Administrator with his nomination to fill that position within the next few weeks.

Mr. Chairman, we are moving forward toward what we believe will be a more efficient Canteen Service and one which will serve our veterans even better. We hope to earn your confidence and support in that effort.

That concludes my formal testimony, Mr. Chairman. I would welcome the opportunity to respond to any questions you might have. [Prepared statement of Thomas E. Harvey appears on p. 41.]

Mr. MONTGOMERY. Thank you very much, Tom.

Don?

Mr. SUNDQUIST. Thank you, Mr. Chairman.

Mr. Harvey, are the canteens losing money now?

Mr. HARVEY. Mr. Sundquist, some of them are. As a system generally, I believe that the Canteen Service is generating a profit. The numbers I have seen are a profit of something like \$4 million on gross revenues of \$183 million.

Mr. SUNDQUIST. In hearing your comments and the reasons for reorganization, it seems to me that all of those seem to be management decisions that could be handled without contracting out. The organizational structure, integrating into medical centers, communications, those are all management problems.

If it is not losing money, then I wonder how can the VA contract out food service now provided by the Canteen Service and keep it self-sufficient financially?

Mr. HARVEY. Well, ordinarily one thinks of contracting out as acquiring someone to provide a specific service at a cost to the facility. Such as if you were to contract out the grounds maintenance function, you would offer for bid the opportunity to conduct the grounds maintenance function at an institution and award that contract to the lowest bidder.

In this case, what we have is a revenue-producing activity at our institutions, so it would be contracting out and providing the opportunity to do that for us to whoever would bid lowest and offer to pay us a percentage of their gross or a percentage of their net revenues from the operation of that function. So, in fact, it would be throwing off additional income for the benefit of the Canteen Service. In the past, those canteen facilities that have been profitable have subsidized the activities of those that have not.

Mr. SUNDQUIST. What is the difference between that in the past, then, and going ahead and contracting out and throwing back some of the profit? How does that change it?

Mr. HARVEY. It does not substantially. The idea would be that, if it were possible to acquire a contractor who could provide the services, hopefully better than they are being provided currently at a cheaper price, generating greater profits for the Canteen Service, it would be a more profitable venture and provide us with additional revenue with which to subsidize the smaller facilities we have at

our medical centers that don't generate the revenue to support themselves.

Mr. SUNDQUIST. In Mr. Hillis' opening statement he made the point that, if the VA was concerned that all the costs weren't being covered, why didn't you start charging for utilities or start charging for space? It would seem to me that that would be an option, as opposed to just contracting out.

Mr. HARVEY. Yes, sir, I think that's true. I have no idea why we would not have done that. It certainly makes sense to me, that that be done.

There may be some situations where at a small, out of the way VA medical center, nursing home or domiciliary, where there is so little business that you simply would have to recognize that to provide the convenience to the veteran patient, and to provide the other therapeutic benefits that one has by having this facility available, we are going to have to pick up the tab for that. We simply can't expect the market to carry that. But those should be very few, I would think.

Mr. SUNDQUIST. The American Legion in its testimony that was submitted today asserts that VA did a survey of VA medical centers and found that contracting out of food services had little support. Would you please comment on that and provide a copy of the survey report to the subcommittee, if one exists?

Mr. HARVEY. I haven't seen that report myself, sir. I certainly will ask that that be provided to you. My own thought on that would be that I wouldn't be terribly surprised. I have not ever heard a group of VA employees—and I've never had an opportunity to discuss this with more than a few—and I have never discussed it with any of our veteran patients—I have never had an opportunity to hear them laud the exquisite cuisine of the VA Canteen Service.

[The report appears on p. 46.]

Mr. SUNDQUIST. I might add that the exquisite cuisine here isn't too good, either.

(Laughter.)

We're not trying to be tough on you on your first day, Mr. Harvey and Mr. Piper, or for your first appearance, but it seems to me that we in the Federal Government sometimes try to fix things that aren't broken. I just question whether, with some good management influence on the problems that you outlined, if we ought not give that a chance to work and see if good management wouldn't prevent complicating this with a lot of problems that may come as a result of that.

Mr. HARVEY. I do hope that we will be able to apply some better management to this and ultimately to keep our eye on the mission of the Canteen Service, which is to provide a benefit to our hospitalized veterans, and to do that in the most cost-effective and efficient way possible.

Mr. SUNDQUIST. It seems also that the benefit to those in the hospitals is worth something, even if you don't recoup all your income. I think that is what we're here for and that is what the VA exists for, to help those people.

Mr. HARVEY. Yes, sir.

Mr. SUNDQUIST. Thank you, Mr. Harvey, and thank you, Mr. Chairman.

Mr. MONTGOMERY. Thank you, Don.

The Chair recognizes the gentleman from Georgia, Dr. Rowland.

Dr. ROWLAND OF GEORGIA. Thank you, Mr. Chairman.

In my home town we have a VA center, and I keep hearing from the people in food service from time to time that there is going to be contracting out of the food service. There is that unrest that is always just below the surface there, and they talk with me about it all the time.

Can you tell me the status at this particular point on the contracting out of food service? Where are we with reference to that?

Mr. HARVEY. We have identified certain facilities that do meet the requirements for contracting out. They have the requisite number of individuals. We have been working with those facilities to attempt to assure that the structure of those facilities, of the food service operations there, is as efficient as possible, so that we are comparing an efficient Government operation with the potential contractors who may be interested in bidding on that.

We will be opening up bids for entities interested in performing that service some time after the first of October.

Mr. MONTGOMERY. Would the gentleman yield?

Dr. ROWLAND OF GEORGIA. Yes, I will.

Mr. MONTGOMERY. Just so the Chair can be clear on your question.

Are you talking about in the Canteen Service or are you talking about the dietetic—

Dr. ROWLAND OF GEORGIA. No, I'm talking about the dietetic service.

Mr. MONTGOMERY. That's what I thought.

Mr. HARVEY. Oh, Sir, there is no talk about contracting out the dietetic service right now. We're talking exclusively about the food service in the Canteen Service, which is generally where staff or visitors would be eating, possibly patients if they have an opportunity to get out of their wards. But not the dietetic service.

Dr. ROWLAND OF GEORGIA. I appreciate the chairman clarifying that.

I have no further questions, Mr. Chairman.

Mr. MONTGOMERY. The Chair was having problems, too and I'm glad you asked the question.

You have no plans now of getting bids or contracting out for the dietetics needs of the patients; is that correct?

Mr. HARVEY. I understand that is correct, Mr. Chairman. We are not planning that, not at this moment.

Mr. MONTGOMERY. On the A-76, you're not contracting out?

Mr. HARVEY. Not at this time, Mr. Chairman.

Dr. ROWLAND OF GEORGIA. I appreciate the chairman clarifying that.

Mr. MONTGOMERY. Dan Burton of Indiana.

Mr. BURTON. Thank you, Mr. Chairman.

Mr. Harvey, I really don't think I'll get into the question regarding canteens. I think that has been handled pretty well.

I have a personal problem with some constituents in my district and I was wondering if you might have some time, either later

today or later this week, that I could talk with you about this problem. Will you be over here on the Hill?

Mr. HARVEY. Yes, sir. I would be very happy to stop by.

Mr. BURTON. I really would appreciate it if you could just take a few minutes to either give me a call or stop by.

Mr. HARVEY. Certainly. I will do that and I will schedule some time with you.

Mr. BURTON. Welcome.

Mr. HARVEY. Thank you.

Mr. MONTGOMERY. I appreciate the Deputy Administrator talking to the Members because they have certainly been cooperative with the Veterans' Administration. Instead of going to the press on some of these things, the Members have come to me and then we have gone to the Administration and tried to handle them. That's the best way to do it. And there are some serious problems that are developing and have developed over the past few months.

Mr. HARVEY. Mr. Chairman, this is such a big operation, with each and every passing day, I have new respect for the size of this behemoth that we are dealing with in the Veterans' Administration.

What impresses me is, given the number of individuals who are involved either as potential beneficiaries or as care providers through the VA employees, I am impressed that actually there are so few problems that do arise. But certainly there are plenty of them and I would hope that you or any of the Members of the committee would feel very free to contact me if there's anything I can do to be of assistance.

Mr. MONTGOMERY. Thank you very much.

Congressman Tim Penny of Minnesota.

Mr. PENNY. Thank you, Mr. Chairman. I have no questions. I just welcome Mr. Harvey.

Mr. HARVEY. Thank you, Mr. Penny.

Mr. MONTGOMERY. For the Members who have just come in, Tom Harvey was Chief Counsel and Staff Director for the Senate Veterans' Affairs Committee. We had the pleasure, as you know, of working with him for several years and we're glad he is in the slot he's in.

Ken Gray of Illinois.

Mr. GRAY. No questions at this point, Mr. Chairman. I just want to join you and my colleagues in welcoming our friend here this morning, and hopefully we can get into this matter more deeply.

Mr. HARVEY. Thank you, Mr. Gray.

Mr. MONTGOMERY. I am going to ask Ralph Casteel, counsel on this investigative subcommittee, who has been out in the field, to ask a couple of questions to further set the stage. After this, we do have another panel and we would hope we could complete the hearings before 11 o'clock.

Mr. CASTEEL. Thank you, Mr. Chairman.

Mr. HARVEY, on page 2 of your statement you refer to an extensive examination of the Canteen Service by two distinguished management consultants, culminating in a recommendation that the Service be reorganized.

Have you seen the results of this "extensive examination"?

Mr. HARVEY. No, I haven't. I do know there was an extensive study by Booz, Allen and Hamilton of the total facility, and I understand there was a second study which may only, indeed, have been a one-day type of thing, looking at the question of whether or not tobacco products should be sold in our canteen facilities. I have not had an opportunity to study either of those.

Mr. CASTEEL. Well, the only study that we have evidently is the latter one. It does not deal with reorganization anywhere in it. I can't find a word in the information that was furnished to us a year ago as a result of these two gentlemen looking into the Canteen Service. Certainly, what they wrote as a result of this one-day get-together with the people in Central Office, including the Veterans' Canteen Service, couldn't be described as extensive.

As a matter of fact, I would like to quote one of these consultants. He says, "I believe that Dr. Gosh and I were called on because of concern for the operating and revenue consequences of a possible deletion of cigarettes from the product line and the steps which the canteen might take to offset the lost revenue." This consultant went on to say, "Although a single-day meeting of this type can yield an overview of problems and issues, it cannot, of course, be expected to produce definitive recommendations and was not, I am sure, intended to do so." The second consultant, while submitting a more lengthy comment, does not come anywhere near touching on the word "reorganization."

Now, last year we asked that these reports be furnished to us and that we be kept apprised of any progress or any additional studies that were made. We have not seen any other results than the one that I am referring to.

Mr. HARVEY. I do believe that the Veterans' Administration has been remiss in not keeping the subcommittee better informed of what has gone on. In preparation for this morning's hearing, I was provided this loose-leaf binder that is here in front of me that has quite a lot of material that includes task force reports from within the Veterans' Administration, other memoranda prepared citing some of the problems that have been sensed with regard to the Canteen Service and possible avenues that may be taken to rectify those. And so there has been consistent activity going on. I just regret that we have not been more forthcoming with the subcommittee, to let you know just what we have been doing.

Mr. CASTEEL. Do you or either of your colleagues have such a report of these two distinguished management consultants with you this morning?

Mr. HARVEY. No, sir, we don't.

Mr. CASTEEL. Would you please provide the committee with this report for the record?

Mr. HARVEY. Yes.

Mr. CASTEEL. Thank you.

(Subsequently the Veterans' Administration furnished the following for the record).

On review our testimony should have stated that the recommendation to reorganize the Veterans' Canteen Service was based on extensive study within the VA and was also supported by the recommendations and analysis of two outside Management Consultants. There follow the Consultant Reports:

Report of Charles S. Goodman, Wharton School.

Report of Dr. Avijit Ghosh, New York University.

The Veterans' Canteen Service: An Audit of Marketing and Management Policy.

[The report appears on p. 50.]

Mr. MONTGOMERY. I know the minority staff has some questions to submit. Without objection, we have questions for our VA witnesses that we would like to have answered. We won't take the time now.

Don?

Mr. SUNDQUIST. Thank you, Mr. Chairman. We just wanted to make sure we had these questions submitted for the record.

(See written committee questions and their response on p. 174.)

Mr. MONTGOMERY. All right. If there are no further questions from the committee member, we thank you for being here, Mr. Administrator, and the other two witnesses. We hope you can follow up on this situation because we have had two hearings in a year's time on this issue. We need to get this thing worked out. It is important.

Mr. HARVEY. Yes, sir, Mr. Chairman. We certainly will follow up on that. As I said, I regret that we have not been more forthcoming because, in fact, there has been activity that has taken place towards the goal of improving the organization and the management of the Canteen Service. I wish that it wasn't necessary to wait until today for a hearing opportunity to let you know of those things.

Mr. MONTGOMERY. I would suggest to the Members that, as they visit these different VA hospitals, that they go look at the canteens. Also, as I understand it, the canteens run the food service for the employees; is that correct?

Mr. HARVEY. Yes, sir.

Mr. MONTGOMERY. It is a pretty big operation.

Mr. HARVEY. Yes, sir.

Mr. MONTGOMERY. Okay. Well, thank you very much.

Mr. HARVEY. Thank you, Mr. Chairman.

Mr. MONTGOMERY. We would like to invite to the witness stand Mr. Schrichte, who is the Executive Vice President of the American Logistics Association. We want to welcome him. He testified here last year and I appreciate him coming back this year.

The Chair recognizes the gentleman.

STATEMENT OF A. KOLBET SCHRICHTE, EXECUTIVE VICE PRESIDENT, THE AMERICAN LOGISTICS ASSOCIATION

Mr. SCHRICHTE. Thank you very much, Mr. Chairman. I appreciate the opportunity to return.

I have submitted for the record in writing—

Mr. MONTGOMERY. Without objection, your full statement will be put in the record, and if you can summarize it, it would be helpful.

Mr. SCHRICHTE. Thank you. My summary is quite terse. That is, we functionally believe that the contracting out of one component of the entire Canteen Service at a time, such as the food service component of the overall Canteen Service, would destroy a part of its capacity to deliver to the patrons and those who are eligible to use the facilities the best possible pricing and the best possible service at the lowest possible cost.

My organization's manufacturers are able to sell at relatively low prices, or at the lowest prices, to the Canteen Service because of its unique authority exemptions from Robinson-Patman and a variety of other existing Federal acts. By doing that, a product may be delivered to the patron at the lowest possible price. And in the case of the Veterans' Canteen Service, it nevertheless has enabled the Service to become self-supportive, while delivering to the patron a very unique opportunity to maintain a quality of life.

If we commence to dissect the overall canteen organization, I believe we will lose that exempted position and thereby probably escalate pricing, et cetera, to the final patron.

Last year I think Mr. Sundquist asked of the veterans' organization that they really consider reorganization. Since I represent private enterprise, most of America's largest consumer product manufacturers, we would have to concur wholeheartedly with the perpetual study of organizational efficiencies in anything that has any tax-supported base, and certainly reorganization and its components would be attractive to the members of my organization.

At the same time, if that is preceded by the dissection of a machine that is currently effective, efficient, and, for lack of a better word, producing a profit, it seems to me that we have got the cart before the horse. For that reason, I would advocate, and my members would advocate, that contracting out, in particular the food service component of the Canteen Service, be deferred, perhaps indefinitely, at least until a reorganization and a reappraisal of reorganization is completed.

Thank you.

[Prepared statement of A. Kolbet Schrichte appears on p. 131.]

Mr. MONTGOMERY. Thank you for that very good summary.

Don Sundquist, your name was mentioned. The Chair recognizes you.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

I appreciate your testimony. I think the points that you make in here are extraordinarily good. I was just consulting with counsel here, talking about how we messed up somehow with the telephone system in this country. Everything doesn't always have to show a profit. I think we made a mistake in what we have done. When you go in a grocery store, you buy a loaf of bread, or flour, or sugar, or basic products, they don't carry the same profit margin as pickles and some other things.

In this whole overall organization, there are some small units that the private sector wouldn't want that we would still have to have. I think the concept of bigger units subsidizing smaller units, I see nothing wrong with that.

I agree with what you're saying. I think we have to look at it from a management standpoint, to see that we're efficient and reorganize. Coming from the private sector, I know there are a lot of people out there that say the private sector can do everything better. I don't think that's true. I think there are some areas where it is a partnership with the private sector, and I appreciate your testimony.

Mr. SCHRICHTE. Thank you very much.

Mr. MONTGOMERY. Would the gentleman yield?

Mr. SUNDQUIST. I would be delighted to yield.

Mr. MONTGOMERY. I have only one question. We have some other questions that, without objection, if the witness would answer those at a later time, that would be helpful.

You do represent private enterprise, is that correct?

Mr. SCHRICHTE. Yes, sir.

Mr. MONTGOMERY. Do some of the individual members of your organization object to the competition from the Canteen Service?

Mr. SCHRICHTE. None in my organization, no, sir. In my organization, we represent, as I say, primarily manufacturers and those who distribute the manufacturers' products. Those manufacturers will probably sell their products wherever there is a demand for tooth paste, soap or crackers or cookies, what have you.

Mr. MONTGOMERY. Do you get any complaints through your organization from the wholesaler or the retailer?

Mr. SCHRICHTE. At this point we have had complaints from retailers, that the military commissaries from time to time have been excessively competitive. But at the same time, those are not focused directly on the Veterans' Canteen Service. To my knowledge, we have never had a complaint about the Veterans' Canteen Service.

Mr. MONTGOMERY. I serve on the Armed Services Committee and I am very familiar with the complaints about military commissaries.

Mr. Sundquist?

Mr. SUNDQUIST. I have no more questions, Mr. Chairman.

Mr. MONTGOMERY. Tim Penny.

Mr. PENNY. In your testimony you focused primarily on the disadvantages to military personnel and veterans if we moved to privatization. I assume, given the kind of companies that your organization represents, that you have over the course of time been dealing with public facilities that have been contracted out, other than the Canteen Service, which you feel we should not contract out.

Mr. SCHRICHTE. Yes, sir.

Mr. PENNY. What I would like you to respond to is what effect has privatization had on your members in terms of their relationship with these entities that were once run by the Government and now are run by a private contractor.

Mr. SCHRICHTE. Candidly, I can't give a very specific answer to that in behalf of the membership, because I don't have any data as to their sales or performance with contractors who are currently performing a function that the Government once did.

I can give you a personal experience. I just spent a couple of weeks in Georgetown Hospital where the food service is contracted out. I would have to say that, on a scale of one to ten, I would have to put it somewhere below half. I don't know whether that's a contracted-out analogy that carries a lot of weight, but as a patient in Georgetown, I didn't find the food service all that attractive. I would have preferred it be done by the dietary department of the hospital itself, I think.

Mr. PENNY. I was just curious. Clearly, in your testimony you're focusing on what you perceive to be the disadvantages to the recipients of the service.

Mr. SCHRICHTE. Yes, sir.

Mr. PENNY. But I was curious to know if there were some economic implications or competitive implications for your membership if all of a sudden you're dealing with a private entity rather than a public entity.

Mr. SCHRICHTE. It would not change our competitive positioning, simply because the greatest bulk of our membership deal in the commercial marketplace already. Only 5 percent of our sales or less—in fact, it is less—are military or veterans or Government-directed sales; 95 percent is the commercial world. So in point of fact, it would not be discernible.

Mr. PENNY. Thank you, Mr. Chairman.

Mr. MONTGOMERY. Ken Gray.

Mr. GRAY. Thank you, Mr. Chairman.

On page 3 of your statement you indicate that a contractor would show a savings to the consumers of the Veterans' Canteen Service over a short period of 1 to 2 years, but these low profits would be merely an investment toward greater profits after that period and that this is elementary business practice.

If I understand your statement correctly, you're saying that it is inevitable that contractors will raise their prices in the outyears; is this pretty much your feeling?

Mr. SCHRICHTE. By its nature, I would assume that a contractor would optimize its profits from the outset and they would have to take a long-term view of it and down the road they would increase their profits. That is the nature of enterprises.

Mr. GRAY. Thereby passing the increased costs on to the veteran and their—

Mr. SCHRICHTE. Ultimately, yes, sir. The word "profits" only comes from one source in this case, and that's the pocket of the veteran.

Mr. GRAY. As an outsider, so to speak, outside of the VA, it is interesting to see you make that kind of a comment. I appreciate your candor.

Thank you, Mr. Chairman.

Mr. MONTGOMERY. Thank you. If there are no further questions, I would like to thank you. You have been helpful.

Without objection, I am going to ask the staff to transmit your statement to the Administrator of Veterans' Affairs for his consideration before these studies and OMB Circular A-76 go further. I appreciate Mr. Lindsey and Mr. Piper staying here this morning and hearing these witnesses: We want the VA to know what's going on.

Thank you very much.

Mr. SCHRICHTE. Thank you, Mr. Chairman.

Mr. MONTGOMERY. We have a panel now. We have Mr. Clyde Cook, former Director of VCS and Director of Office of Procurement and Supply Service of the VA; Mr. Walter Nelson, former Director of VCS; and Mr. V.A. Young, former Director of VCS. If you have a statement, it will be put in the record. We would like to welcome you gentlemen. You know more about the Canteen Service than most other Americans do and we would like to have your information and input.

Do you have statements?

Mr. Cook. Yes, sir, a brief statement.

Mr. MONTGOMERY. All right. Go ahead, Mr. Cook.

STATEMENT OF A PANEL CONSISTING OF CLYDE C. COOK, FORMER DIRECTOR, OFFICE OF PROCUREMENT AND SUPPLY, AND FORMER DIRECTOR, VETERANS' CANTEEN SERVICE; WALTER A. NELSON, FORMER DIRECTOR, VETERANS' CANTEEN SERVICE; AND VERGIL A. YOUNG, FORMER EMPLOYEE, VETERANS' CANTEEN SERVICE, CENTRAL OFFICE

STATEMENT OF CLYDE C. COOK

Mr. Cook. Mr. Chairman, I will get right to the point and summarize my statement.

I think perhaps the greatest problem right now facing the Canteen Service is OMB Circular A-76. Veterans' Canteen Service employees are concerned that insufficient attention has been given to the rationale for changing the present structure.

It has been said here this morning and recognized that VCS maintains a national policy on pricing. It is my feeling, and I think it is probably logical, that if we were to contract out, the contractors would be interested only in those canteens that show a profit and would not probably be so willing to share that profit with the VA.

One of the things that concerns me, I guess, I could summarize by saying my own view is that the food service question should be resolved on an "all or none" basis. I think it is perhaps also appropriate to reconsider contracting out if it should be applied to VCS. As has been said, VCS service is a nonappropriated fund activity, like other activities in the Defense Department, for example.

Several years ago, as a follow-on to the report of the Commission on Government Procurement, a study was conducted which included people from the VA and chaired by OMB. Their decision was that the Government procurement regulations and policies did not apply to the Canteen Service unless explicitly stated as doing so, which in my view translates to the fact that we are contracting out really on the basis of a management decision and calling it A-76.

There are other considerations that might well be taken at this time. One of them is the fact that some years ago the question arose, because of a legislative change, that the Randolph-Shepherd Act, which deals with the so-called blind stands and the preference of locations in government buildings to the blind, it was decided at that time that this did not apply to VCS. I'm not so sure that that same posture still holds today if, in fact, the food service were contracted out and we would be dealing with private employees rather than VCS employees.

Mr. Chairman, I can offer no real information concerning the reorganization of VCS. It has not been discussed with me. Prior to my recent retirement, at least, I had an official interest because the Supply Service of the VA provided raw food to the Canteen Service for its processing.

Again, as it relates to a full-time Director of VCS, I was pleased to hear this morning that action is being taken because I think many of the problems at least would be mitigated if, in fact, there were a full-time Director. It is no secret that a part-time Director

doesn't carry the authority and influence as one who is permanently assigned to the job.

These are a very brief summary of my remarks. Mr. Nelson will comment from here on.

[Prepared statement of Clyde C. Cook appears on p. 138.]

Mr. GRAY [presiding]. Mr. Nelson, you're recognized.

STATEMENT OF WALTER A. NELSON

Mr. NELSON. Thank you, Mr. Chairman, members of the committee.

I began my career with the Canteen Service in March of 1946, when General Bradley proposed changing the concessionaire operation to a government controlled activity similar to Army PXs and Navy ships' stores. I spent the last 4 years of my career as the Director of the Service. When I retired in 1982, I left with a feeling of confidence and good spirits about the future of the Veterans' Canteen Service. That good feeling has now dwindled to a faint hope.

Your office provided me with a transcript of the hearing held before the committee on September 18. I thought that it was a very thorough and comprehensive review.

It is my strong belief that the legislative history clearly shows that the Veterans' Canteen Service was meant to be an independent unit within the Veterans' Administration. The law states that the VCS has exclusive control over its activities, including sales, procurement and supply, finance, disbursement, and personnel management. In spite of many obstacles in running a business within the government, the VCS has operated effectively, efficiently and economically over the past 40 years.

In the early days of the VCS, the VA hired Booz, Allen and Hamilton, who are management consultants, to make a comprehensive study of the VA programs and organizations. The firm's report stated that the VCS organization met the provisions of the law for control of financial and merchandising aspects and for establishment of operating responsibility and accountability.

Booz, Allen stated that the VCS should be preserved with no interference from above, not only because the law specifically forbids it, but because the requisite knowledge to operate a commercial business competently was not provided for in the VA outside of the Veterans' Canteen Service. These principles are still valid and relevant and should be preserved.

In May 1982, the VA's Chief Medical Director testified before this committee that the VCS offered high-quality, uniform service and pricing throughout the VA medical system. The General Accounting Office, in its periodic audits of the VCS, has repeatedly found no exceptions. Other reviews, from both inside and outside the agency, reached the same basic conclusion: "the VCS successfully accomplishes its mission in an efficient, effective and economical manner."

Moreover, the CMD testified that the VA, and the medical care program in particular, had benefited in many ways from the VCS's existence. The CMD also reported that the VCS had taken a number of important reorganizational steps to reduce the cost and improve the service. So I think that many of us are asking why,

what is this all about? What is all this talk about contracting out, reorganization and A-76.

You have heard testimony that if the Service is turned over to a contractor, whose goal is to make a profit, the VA will lose.

Congress clearly intended that the VCS operate the canteens. The VA repeatedly acknowledged that fact by recognizing that 38 U.S.C., chapter 75, excluded the VCS from the requirements of A-76. And so it remained until recently, when the VA decided it would be a good idea to turn the canteen cafeterias over to contractors or concessionaires. If contracting out does occur, the VA will find itself repeating the mistakes of the past that led General Bradley to discard concessionaires in the first place.

I'm tempted to digress here for a minute. When we took over the West Roxbury Hospital from the concessionaire in 1946, the Director came down that day and said, "This is great. We're going to close it and we're going to clean it up. That's something I couldn't do under a contractor."

Let me talk about personnel ceiling for a minute, since one of the objectives of the agency is to save ceiling. Why is the Veterans' Canteen Service even subject to personnel ceilings? Public Law 81-67 exempted the Veterans' Canteen Service, but the exemption was left out of title 38 when it was codified. The law itself has never been changed by Congress. Placing VCS employees under ceiling does not save any tax dollars. It is simply a "make-work" program in the FTEE game.

Let's talk about investment of funds. The VCS is not permitted to invest its idle cash for income. Other similar activities, such as AAFES, NARESCO General Post Fund, the Post Office, to name a few, are allowed to do this. What I am trying to point out by these two illustrations is that the VCS, which by law has exclusive control over its activities, has important areas beyond its control.

Finally, the Veterans' Canteen Service needs a leader, a director, a manager, with expertise in this unique activity and in merchandising, who can plan, organize, staff, direct and control this complex and important service.

I never thought I would make this suggestion, but perhaps a management study by the General Accounting Office is in order, so we can get an objective view of the VA's VCS predicament.

Thank you.

[Prepared statement of Walter A. Nelson appears on p. 142.]

Mr. GRAY. Thank you, Mr. Nelson, for a fine statement.

We will now hear from Mr. Young, and then we will go to questions of the entire panel. Mr. Young, you may proceed in any fashion you desire.

STATEMENT OF VERGIL A. YOUNG

Mr. YOUNG. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before this subcommittee on behalf of the Veterans' Canteen Service.

I served in the VCS Central Office in various high-level positions from 1947 to 1976, a period of 29 years, and have maintained a close relationship since that time. On August 21, 1984, I was asked by the Director of the Canteen Service to study the historical back-

ground of the Canteen Service and the possible problems arising from application of OMB Circular A-76 and various organizational proposals.

OMB Circular A-76 does not apply to appropriated fund activities, including the Canteen Service. Nevertheless, the Canteen Service was directed by VA circular to conform with the requirements of the OMB circular. One reason advanced was that the Canteen Service, with about 2,000 employees, would be sacrificed to save the Dietetic Service, with about 14,000 employees, from being taken over by private enterprise.

The review of these operations under A-76 is being made for each medical center canteen. If contracts are consummated on the same basis, it is likely that the VCS will lose many of the larger operations which are self-sustaining to private enterprise. Consequently, the remaining operations will need to be drastically curtailed, eliminated, or be sustained by appropriated funds. Such action would appear to contravene the mandate in the enabling legislation, that the Service, as a whole, is to function as a unit and have exclusive control over its functions.

When the Canteen Service was established in 1946, its organization was placed at the VA Administrator's staff level. In 1952, Booz, Allen and Hamilton was engaged to make a comprehensive study of the VA's program and to make recommendations. Pursuant to their recommendation, the Canteen Service was transferred to the Department of Medicine and Surgery. Thereafter, during the first few years, the Canteen Service Director reported directly to the Chief Medical Director's office and received full support. Subsequently, during a VA reorganization, the VCS was placed under a Director for Administrative Services, or similar title, within the Department of Medicine and Surgery.

There has been several incumbents in that office over the years. Some of them have been most helpful and others have been obstructive and destructive. The position of Director, VCS has been vacant since March 1985. For the past 2 years rumors have persisted that the VCS would be abolished as presently structured, that its food service would be provided by private contractors, and that its other functions would be distributed to other components within the VA. These rumors, unfortunately, contributed to low morale of VCS employees nationwide and the loss of many dedicated, competent employees.

The rumors came to the attention of a former Chief, Voluntary Service, who had been at nine different VA medical centers in a long Government career, the latest being at San Diego for 14 years. He stated that he is amazed to observe the outstanding cheerful and polite attitude of Canteen employees in dealing with VCS customers and that the morale of hospitalized veterans is thereby improved. Finally, he urges and hopes that the present effective method of providing canteen services will be continued as is.

Thank you.

[Prepared statement of Vergil A. Young appears on p. 146.]

Mr. GRAY. Thank you, Mr. Young.

Without objection, the Chair would like to insert at this point in the record a statement from Jack Westall, formerly the ACMD for Administration in the Department of Medicine and Surgery, and

formerly the director of the Bay Pines VA medical center. Without objection, this will be inserted in the record at this point.

[The statement of Jack Westall appears on p. 154.]

Mr. GRAY. I want to thank all three of the panel members for their testimony. I first would like to ask Mr. Cook, your statement indicates that you're not familiar with the proposed reorganization of the Veterans' Canteen Service, but the assignment of a permanent Director of the Service would cure many of the ills troubling it.

In your opinion, should any reorganization of the Service be delayed until the new Director is in a position to have input into it?

Mr. COOK. Yes, sir, if they act promptly, if it's not dragged out.

Mr. GRAY. Do you think they ought to hold in abeyance any real strong reorganization until there is someone to guide it?

Mr. COOK. Yes, sir.

Mr. GRAY. There's no use in putting the vehicle out on the road without a driver; is that pretty much your analysis of it?

Mr. COOK. Yes, sir.

Mr. GRAY. Mr. Young, I would like to ask you the next question.

On page 4 of your statement, Mr. Young, you refer to a 1977 comprehensive study of the Veterans' Canteen Service by the VA Management Engineering Service. In your opinion, would the observations you cited in your statement apply to today's Veterans' Canteen Service?

Mr. YOUNG. This is my understanding. I am not working with them completely now, but I have made the study and I understand that this does apply. There is no reason to think otherwise.

Mr. GRAY. Thank you for that.

Would any of the panel members comment on the present adequacy of the role of medical center directors in the operation of local canteens? As you know, with no, what we would call, central direction from the Washington level, this is all being done primarily by the medical center directors. Would any of you or all of you care to comment on the adequacy of that management?

Mr. NELSON. Well, I have heard those comments made. I know, during the period that I was Deputy Director and Director of the Canteen Service, I met with almost every director in small groups of 10 or 12, assistant directors, and many chiefs of staffs, and we reviewed the canteen program. All the things that I have heard to the contrary are a surprise to me.

There were individual problems, like the Congressman had an individual problem and asked to speak to the Deputy Administrator this morning. We had individual ones. But service-wise, I wasn't aware of any serious management problems of friction.

Now, dividing up the responsibility, the directors have a lot of responsibility today. They have the responsibility, space, sanitation, security and administration of hospital rules and regulations. But you can't give one man the responsibility for the fund and the other man the authority to spend the monies. It isn't going to work.

The Exchange Service spent almost a lifetime trying to get command line authority, the kind of authority that title 38 gives the Veterans' Canteen Service. They finally got it, but it was an agonizing period, when the station commander had one authority and

the head of the Exchange Service had other authorities. You can't run a business like that. You can't run anything like that.

Mr. GRAY. Isn't it also true, Mr. Nelson, that if you don't have someone with central authority, that each individual medical center director may have his own ideas as to how he wants to run a canteen service.

Mr. NELSON. Yes, you can get into a lot of abuses in that kind of a system—

Mr. GRAY. So what you're saying to the Subcommittee is that's not a good policy, the way it's being run now?

Mr. NELSON. I can't believe there is a good management person around that would subscribe to dividing responsibility from authority.

Mr. GRAY. In fact, I think that's along the lines of your testimony. On page 4 you make the comment—and I quote—"You can't run a nationwide commercial business without field offices."

Would you briefly elaborate a little more on that comment as it applies to the VCS?

Mr. NELSON. Certainly. We had originally 13, and that was cut to 6, and we went down to 5, and during the time I was Director we reduced it to 3 and we consolidated the five finance branches into one and changed the audit program.

You need some kind of field representation. I'm of the school that believes it is better to have that representation in the field. We, here in Washington, sometimes have things colored for us, and I think field offices were very important. I think most of your retail chain organizations do the same thing.

Mr. GRAY. Either Mr. Cook or Mr. Young, do you desire to comment for the record about your feelings of not having a Director as it relates to just letting the local manager run it without any central direction?

Mr. COOK. I share Mr. Nelson's views on that. You must have some central direction. We heard that the Canteen Service is in a profit position now. I don't think it would be for long if it were dissipated that way.

Mr. YOUNG. I agree with these gentlemen completely.

I would like to add a word. In the beginning, concessionaires naturally objected to the Canteen Service being created and taking over their lucrative operations. There was considerable resentment and agitation and that didn't cease to exist.

But over the years, the Director for the first 25 years went out of his way to cultivate the area medical directors and the station directors and let them know there was a partnership, and that the canteen was a little circle within the big VA circle.

Gradually they made the station directors responsible for just as many things as they could that weren't within the area of the technical operating details of the canteen. They were made responsible to provide space and maintain it, to provide housekeeping, to include the Canteen Service on supply contracts for their food. Their payroll and personnel processing was integrated with the VA system and so on. They were part of the employees' union at the station. There was practically no area where they didn't share or have responsibility.

Information has come to my attention that most of them don't want any more responsibility and they're happy the way things are.

Mr. GRAY. You gentlemen have been very helpful. I think you are certainly in tune with at least the feelings of this member of the committee, that this is a ship that's adrift at sea. If we're really going to provide the service that's required, we're going to have to fill these positions at the top management level and give back-up and authority and at least moral support to those people running these canteens. I think the way it is now, the local manager of the hospital is calling the shots and getting no real direction. I am glad to see you're all in agreement on that particular score.

Mr. RIDGE, do you have any questions of the panel?

Mr. RIDGE. I do. Thank you, Mr. Chairman.

First of all, I want to thank you gentlemen for your strong testimony. Mr. Cook is the former Director of the Office of Procurement and Supply, and you worked closely with the Veterans' Canteen Service. Mr. Nelson is a former Director of the Veterans' Canteen Service, and Mr. Young, a former employee of the Veterans' Canteen Service. All of you have stated so strongly that the first thing you need is that permanent Director appointed immediately, yesterday if we could possibly do it, and I thank you for your strong and emphatic testimony on that particular point.

Perhaps you could elaborate for me a little bit about the history of the Veterans' Canteen Service. I have a suspicion that it was inadequate private sector service, probably some problems with pricing, perhaps sanitation, perhaps the lack of universal service, that precipitated the move toward the VCS to start with, and now it appears we want to dismantle and take us back to those days of yesterday.

Would any of you care to comment on that?

Mr. COOK. Mr. Young has written a history on that.

Mr. YOUNG. Yes, I've written a history on it. After World War II, a group of Army Exchange officers surveyed the system of concessionaires in the VA hospitals, with a big influx of veterans coming in, and there were many complaints about the service prices and other things with the concessionaires for profit. The contracts were let out for each hospital and there were 12 hospitals that couldn't even get a concessionaire, smaller hospitals or neuropsychiatric hospitals. No service whatsoever was provided.

Well, these experienced exchange officers spent several months trying to see if they could make the system work as it was, and they found it was impossible. General Bradley and his aides then submitted legislation which created the Veterans' Canteen Service to provide uniform service that was, in effect, the type of service that the veterans were used to while they were in the Armed Forces, instead of the inferior service they received at existing VA hospitals, which they did, after conferring with many responsible people, by establishing the Veterans' Canteen Service law in August 1946.

Mr. RIDGE. Thank you, Mr. Young.

Mr. Nelson, again some historical background for me. Over the years, has VCS basically been self-sustaining?

Mr. NELSON. Yes, it always has. Originally, it was appropriated \$4 million to get it in business, sort of a petty cash. That was supplemented by \$965,000. This was to buy inventory, equipment, pay current salaries and so forth.

Since that time, the Treasury has recovered \$12,068,086. This is a revolving fund and the payments into the treasury were determined to be excess funds by GAO. So aside from the original \$4.5 million that the Government put up, they've received back \$12 million, plus there is some substantial interest to be earned on the Canteen's idle cash that lays in the Treasury. That's probably worth \$3- or \$4 million a year. I haven't calculated it.

I think in some of the early years there were some unprofitable periods. In the retail business you have your peaks and valleys. You have your golden quarter, which is October, November, and December. But you run it as a business and you look for the year's results.

We try to break even. That's the name of the game. But when you're juggling a \$180 million business and depending on unknown sales, it is not always possible to do that. The one thing you don't want to do is become anti-deficient, which is an unforgiveable sin in the Government.

Mr. RIDGE. Except for Congress.

Mr. NELSON. We have had a few periods where some quarters were anti-deficient, but that didn't mean there wasn't money in the bank. But you can't count inventory and a lot of things like that as an asset under OMB Cir: A-45.

Mr. YOUNG. May I add one point?

Mr. RIDGE. Please, sir.

Mr. YOUNG. In addition to the \$12 million mentioned by Mr. Nelson that had been returned to the Treasury, it's a transfer from the revolving fund to miscellaneous receipts. In addition to that, the Canteen has generated about \$73 million in inventories and fixed assets out of their operations which the Government owns. Also, they have set up a system with the General Accounting Office where the medical center canteens deposit daily or maybe 3 times a week all of their money into the Federal Reserve System and it is drawn right on into the Treasury as needed. So there is a cash flow system to the advantage of the Government. VCS budgets generally provided for a net income of 2 percent of estimated sales as a safety factor.

Mr. RIDGE. I'm glad you made that point as a matter of record.

I guess one final observation and just a general response, if you would. Privatization has become a familiar buzz word around here, be it directly as a result of that circular or a change in management philosophy within the VA.

I guess my initial response is similar to the one about privatizing mail service. If, indeed, it is your interest to get profit-seeking organizations to operate these facilities, you can privatize the profitable facilities. Not all are profitable in your system—and it's just that; it is a system. I am sure there are some that are more profitable than others, and some canteens may even lose money, but overall it is a system-wide service that you are providing. It seems to me that is something that we should preserve.

I appreciate your comment, Mr. Cook, either privatize it all out or none of it, although I think there are some of us that would prefer to see none of it. Thank you.

Mr. GRAY. Thank you, Mr. Ridge.

Mr. Penny.

Mr. PENNY. Thank you, Mr. Chairman.

That's precisely the point I wanted to follow up on, is whether, in fact, any of you believe that we could have an efficient, quality Canteen Service if we were to privatize the entire operation and keep it a system.

Mr. NELSON. I don't. There are so many pitfalls in that. You heard the representative from ALA describe some of them. First, you're going to lose a lot of your State tax exemptions. The clothing program that is conducted for neuropsychiatric patients, will probably be adversely affected. I don't know of any employees' food service that is really self-sustaining.

I'm not sure—and I haven't heard it here—of what is really involved in a contractor providing food service. They're going to first go in and find out what the hospital or the business or, in this case, the VA, what do they want to provide, what kind of pricing, hours, menu, etc. Then they're going to add all of this up, and then they're going to consider their costs, the cost of their food, supplies and so forth. If they think they can operate on a profitable basis—and when they figure profit, they figure in their overhead; they have got to pay for the president of that company, and if it's a publicly held company, they are going to have to produce a dividend and so forth. If they can operate that on a profitable basis, they will enter into a risk-type contract. But if they cannot see their way clear to a profitable operation, they are going to go into some kind of management fee type of contract. In other words, they will say "We'll run this for you, but you have to pay us."

Now, we have talked a lot about small hospitals, and there are more small hospitals than there are large hospitals. In going into that kind of contract, who is going to support the Marlin, TX and the Sheridan, WY, and even some of the innercity hospitals. Mr. Young mentioned the capital equipment that the VCS provides. The contractor provides no capital equipment. The VA is going to have to provide that.

So where are the funds going to come from to pay for this capital equipment and for these management fees? No, I don't think it's a viable possibility, but that may not stop the VA from repeating the mistakes of the past that were experienced under concessionaires.

Mr. PENNY. I thank you, Mr. Nelson, for your testimony. I think it has been very evident to all of us that it would be detrimental to the smaller facilities, the facilities in remote locations, if we were to privatize parts of the system, because clearly, the larger, more cost-effective facilities would be the first ones to be privatized. That would naturally result in higher rates in the other facilities and that would be to the detriment of the veteran.

But I wanted someone from this group to also speak to the issue of contracting out the entire operation, just so we could point out more clearly the pitfalls in going to that approach, just in case there are those who persist in thinking that maybe, instead of selling off the most profitable aspects of the Canteen Service, that we

sell off the entire operation on the notion that somehow the private sector will keep the system in place and keep all the advantages of the system, but perhaps save us even more in terms of cost to the veterans. I think you pointed out quite clearly that the likelihood is that it will not provide any savings to the veteran and that there are other disadvantages in moving in that direction. So I thank you for your response.

Mr. GRAY. Thank you, Mr. Penny.

Gentlemen, either of you can answer this, or all three of you take a crack at it.

One page 3 of Deputy Administrator Harvey's testimony earlier this morning, he said, "The three VCS field offices will be closed at the earliest opportunity and their functions transferred to the Central Office and the VA medical centers."

How do you feel about that, closing the Canteen field offices? I understand that, geographically, there is one in New Jersey, maybe one in Georgia, and one on the West Coast. How do you feel about closing the offices?

Mr. COOK. I'm not sure what they're seeking to do by closing those.

Mr. GRAY. Well, what they state here—and I can only go by this, of course, since Mr. Harvey is not here. In his prepared statement he said they have recommended to the Administrator, and now it is under review by the staff, that part of the principal features of this proposed reorganization plan is, one, to close the three Veterans' Canteen field offices, and to transfer jurisdiction to the VA center here in Washington, and to the medical center management. That would be the individual managers of the hospitals. So there would be no one out in, let's say, the Midwest going out and making sure that the supplies were forthcoming and to actually oversee it.

In other words, it would all be orchestrated from this level directly to the VA manager of the hospital, with no intervening management.

Mr. COOK. I'm not sure what they are trying to accomplish with it. I might add it appears to me to be contrary to the trend generally of mid-management between the Central Office and the field.

Mr. YOUNG. May I add to that?

Mr. GRAY. Yes. Any one of you may answer.

Mr. YOUNG. Two principal points. If they do that, they are taking away the line authority from the Canteen Service to the medical center canteen, going through the station director, and most of them don't want the technical responsibility and accountability for the canteen operation, the technical phases. The three field offices have field supervisors who go in and make rather comprehensive checks in various phases of the canteen operation, in all phases of it. They are experts in food and retail and procurement, to see that they're going by the book, that they are dealing with authorized customers and authorized merchandise, and the control of the assets, operating with merchandise of high personal appeal, and they have to have strong internal controls to prevent theft or loss of assets through carelessness and so forth.

Instead of centralizing the three field offices that are too few, they should have field offices closer to canteens to supervise them properly; to assist canteen officers in recurring problems; and to

assure that canteen officers participate as staff members at the medical centers. There is also a question of travel expense if the supervisors are all located in Washington, DC, and must travel thru out the U.S. to conduct management checks and supervise canteens. It just doesn't seem right.

The field office system has worked very well. It started out, as Mr. Nelson said, with 13 offices. But that went along with what they had in the area medical directors offices, and that lasted only a short time while they activated the canteens under the public law way back in 1946 and 1947. The Canteen Service took the initiative to reduce down to six and then to five field offices, and that has worked very nicely. They had very strong directors of these field offices, former Army exchange officers, people that operated chains of drug stores, Montgomery Ward, Dayton-Hudson, Ben Franklin stores, navy food experts. They were all experts in their field. I feel they made the Canteen Service as strong as it is today and that it would be a great mistake to eliminate the field offices or to centralize them. I think they would lose a great deal of their thrust and benefit.

Mr. GRAY. The personal oversight.

Mr. YOUNG. Right.

Mr. GRAY. Well, it flies certainly in the face of our entire governmental structure. You have Social Security Administration regional offices. When we apply, we don't all go to Baltimore, MD, the home office. We have various offices around, even in each county in my congressional district. The Farmers Home Administration, the Department of Labor—I could just go on and on. And even in the VA itself, it is regionalized. That was part of the Reagan administration platform to decentralize Government and bring government closer to the people.

If a veteran wants to go in for a medical examination in my area of southern Illinois, he goes to Chicago. He doesn't come all the way in to Washington, unless he is appearing before the Appeals Board. So all I'm saying is, this proposed reorganization flies in the face of the entire structure of the VA as it is set up at the present time as it relates to everything else, except the Canteen Service.

And this is the only part of the VA that is making money. As I understand it, last year it made about \$5 million out of a \$180 million gross. The rest of the VA is all directly funded out of the taxpayers' pocket. So as the old saying goes, if it isn't broke, why fix it.

I was certainly interested in the comment that the Administrator made because it appears they are heading that way. It is a direct recommendation that is now before the Administrator to be implemented. Since you fellows have had so much experience, I wanted to get on the record at least your feelings about it. You think this is a mistake, then?

Mr. YOUNG. Definitely.

Mr. NELSON. Mr. Chairman, I would like to add to that. I think it's against the law. If Public Law 636, 79th Congress, the 2nd Session, is worth the paper it's written on, I think it violates the law—certainly the intent of Congress.

Mr. GRAY. That it be an independent agency.

Mr. NELSON. Right. There were some of us that heard General Bradley on this subject. He didn't create that the VCS by mistake. He did that deliberately. He understood organizations. He understood, if you were going to run something, you had to have the line authority to do it. You can't give one person responsibility and another person the authority. He didn't stumble into this Veterans' Canteen Service organization. It got a lot of study beforehand.

Mr. GRAY. Frankly, Mr. Nelson, this is why at least this Member is disappointed, because exactly a year ago, in September of 1985, the Acting Director of the Canteen Service promised us faithfully that, 1, within 90 days they would have a permanent Director, and 2, they would keep this committee informed of the progress. And now we find all we've got here is sort of a secret plan that someone has worked up that is now before the Administrator for implementation. They haven't fulfilled that promise of keeping this committee advised. So what little knowledge some Members have on this committee we might be able to give input.

They're telling us instead of asking us, and those of us who directly represent the veteran are, frankly, we are put out that it is going in this direction. But what we are trying to do is stop the car from hitting the ditch, if we can, and keep it on the road. That's the purpose of this hearing this morning, to get the expert testimony. It looks like this so-called reorganization plan is headed in the wrong direction.

Let me ask you one other real quick question and we'll get on with bringing back some of the other top officials of the VA.

I wonder if you gentlemen realize that this \$180 million, approximately, that is being collected every year is lying in a fund dormant and not collecting any interest for the Canteen Service, or for the taxpayer, for that matter. Would it be your feeling that this money should be invested? Even in the Highway Trust Fund, where I serve on the Public Works and Transportation Committee, we earned last year a billion dollars in interest by taking the residue left over and above the apportionment to the States and invested that money.

It is my understanding that this money is just lying dormant that is collected from canteens. What is your feeling about that?

Mr. COOK. It should be invested. I will say that I believe some action is being taken to bring that about.

Mr. GRAY. In other words, you feel we should be earning some interest on this money that is not being used?

Mr. COOK. Yes, sir.

Mr. GRAY. Counsel would like to ask a question.

Mr. CASTEEL. Do you feel that it would require legislation to have the authority to invest this money in interest-bearing Treasury bills and whatnot?

Mr. NELSON. I do, and at the time I was Director, we attempted to get that authority through legislation. These administrative decisions are thrown at you when you have to live with them.

We did have that money under our control at one time, but then it was taken by the Treasury. But I am surprised to learn they are not earning some interest on it. They're losing several million dollars a year.

Mr. GRAY. That's what I was going to say. We are losing millions of dollars every year. But it is your opinion it would require legislation?

Mr. NELSON. For the VCS to do it. I don't think it would require any legislation for the Treasury to do it.

Mr. GRAY. Right. We'll see if we can get a bill up real quick.

Mr. RIDGE, do you have any further comment or questions of the members of the panel? Otherwise, we will move on to bring back the VA officials.

Mr. RIDGE. No further questions, Mr. Chairman.

Mr. GRAY. Okay. Thank you very much.

Thank you, gentlemen. You have been tremendously helpful this morning. We will absorb, assimilate and digest all the testimony and then decide what to do about trying to get more information out of the Central Office as to what their plans are. We have been in the dark for a year now and we're trying to shed a little light on the subject. So thank you so much for appearing before the committee. It has been very helpful.

Mr. GRAY. We would like to recall Mr. Robert Lindsey, Director of Operations, Department of Medicine and Surgery, and Mr. Piper, Director of Administration, Department of Medicine and Surgery. If you gentlemen would kindly retake the witness chair.

Mr. PIPER, I had the pleasure of chairing some of the hearings a year ago, and the witness appearing on September 18, 1985, stated that she hoped to have the proposed reorganization plan completed within 45 to 90 days. Of course, you have heard me state earlier that it has been over a year now and nothing.

We would like to know what the problem is. Has it been hung up down at OMB, or is it a problem in the Central Office? Could you shed some light so we could tell the veterans' organizations and the various people that are contacting we elected officials as to why this matter has gone on now for over a year without any resolution?

Mr. PIPER. Mr. Chairman, I assumed the position at the start of February of this year. I was as appalled as you are, sir, about the fact that it took such a great time. One of the things I believe is that if a thing is worthwhile, you should get all the input you can and move it as rapidly as you can. To that end I have worked, and the document, as the Deputy Administrator said, is now on the Administrator's floor.

Mr. GRAY. But don't you think it would have been a lot more sensible had this committee and the staff on both sides of the political aisle had a little input before these recommendations went down, of which three expert witnesses believe that the main guts of the proposal now lying on the Administrator's desk is completely wrong as it relates to "reorganization"? So here we are sort of after the fact.

Had the promise that was made here been fulfilled, that we would be informed within 90 days as to what at least the preliminary findings of these studies were and what type of programs were going to be implemented, we could be in a lot better posture than we are now, of just hoping and wringing our hands that the Administrator is going to do the right thing.

As I said, from his own testimony here this morning. He doesn't appear to be headed in a direction that we would like to see him go—that is, abolishing regional offices and this sort of thing. So I'm just wondering if we might have any input at all before this final plan is drawn.

Mr. PIPER. First, Mr. Chairman, I would like to say that in the pulling together of the document that's on the Administrator's floor, we had a representative of the General Counsel's office. I am just as concerned as you are, sir, that we meet the intent of the law and that we do not violate chapter 75 of Title 38. I would hope that it would not do that.

It is not our intent in any way to eliminate any of the functions that are necessary to carry out the good things that the Canteen Service has done. The functions that were performed in the field office will be performed by people either in VACO, under the proposed reorganization, or some of them by the local canteen chief, as well as with the help of the VAMC Director.

Mr. GRAY. Wouldn't it be better to have a Director of the Veterans' Canteen Service in the take off as well as the landing? I mean, here all these proposals are being made to the Administrator and yet there is no one central person to even help guide this thing. It looks like he's going to be handed a plan that he, in fact, may not know how to operate, or two, not even agree with.

Mr. PIPER. I would hope in any plan there is sufficient flexibility so that a director of any service has the ability and the capability of putting his own ideas in, so that it will work to the benefit of the organization and provide the mission that it should according to title 38. I believe that the plan that is in front of the Administrator will give the new Director that flexibility.

I agree with you, Mr. Chairman, it would be nice if the Director of the Canteen Service was on board. I have worked diligently since I have come into my job to see that that would happen.

Mr. GRAY. I know just recently I received a letter from Mr. Talcott, who I served in Congress with years ago, who is your liaison, and he was asking me for input on the selection of a Chief of Medicine and Surgery. I understand that position is vacant. He wanted to know if we had any nominations or could nominate someone. I applaud him for it, trying to find the best qualified person.

But I have had no letters from anybody asking if I would know of anybody who would be good to run the Veterans' Canteen Service. Here just out of the blue we get a solicitation for a position that, frankly, I'm not in a position to recommend because that's out of my field. But I do know a little bit about the Canteen Service because I have the Marion, IL Veterans' Medical Center in my district and visit there quite often.

I am just wondering why no emphasis is being placed on this position and a lot of emphasis is being placed on the other. It is a dual standard. If you're really going out and are truly interested in the Veterans' Canteen Service, as everybody seems to say once a year, but for the other 364 days we seem to be kind of lazy about finding a good director for it and getting the show on the road, particularly in view of the fact that it is making money.

Mr. PIPER. I think, Mr. Chairman, you heard the Deputy Administrator this morning state that they are very interested in seeing this position filled.

Mr. GRAY. We heard that. But without being argumentative, Mr. Piper, we heard that exactly 12 months and 18 days ago.

Mr. PIPER. I think, Mr. Chairman——

Mr. GRAY. That's a long time.

Mr. PIPER. It is a long time, far too long a time, and I think it's one that has been disruptive to the morale of the people in the Canteen Service. I would agree wholeheartedly with the three former people, that the morale has suffered. I think this is one of the items that has caused it to suffer. It is one of the items that I am pushing hard to see resolved, and send the nomination to the Chief Medical Director to forward to the Deputy Administrator.

Mr. GRAY. Okay. Let me switch gears just momentarily.

Mr. Piper, since the VA Canteen Service fund is nonappropriated funds, could you explain to the committee the reason for including this revolving fund in the 1985 sequestration order required by the Balanced Budget and Emergency Deficit Control Act of 1985, better known as Gramm-Rudman, as to why, since these are separate funds in a revolving fund—they are nonappropriated—as to why they were grabbed in the sequestration order?

Mr. PIPER. Mr. Chairman, I think that question probably should be asked the Office of Management and Budget, since they published the document that included it. I would agree with you, sir, that since it is nonappropriated funds, it doesn't appear that it should be included in it. Originally we were told that we would have to reduce our obligations. Our obligations, as defined in the budget, are somewhat equivalent to our sales.

We were also informed that we would not have to transfer the amount they sequestered, the 4.3 percent, which amounts to \$8,104,000, to the Federal Treasury. Although it hurt to reduce the obligations, because this reduces inventory, and the amount of items that we have to sell to the eligible individuals, we went along. It caused us to decrease the amount of equipment purchases. It caused us not to replace employees to render service to veterans. It was a handicap to us, but we were promised that we would not be included in future years.

Recently we have learned that they intend to transfer the \$8,104,000 from the revolving fund to the Federal Treasury. This will have a serious impact on it. We——

Mr. GRAY. Excuse me for interrupting at that point.

Are you saying now they're still dipping in to the fund, getting ready to take another \$8.1 million?

Mr. PIPER. Yes. We were advised by the comptroller's office that the Office of Management and Budget said—that their General Counsel stated that they will transfer from the revolving fund to the general Treasury \$8,104,000.

Mr. GRAY. This is fiscal year 1987?

Mr. PIPER. Fiscal year 1986, sir.

Mr. GRAY. 1986.

Mr. PIPER. Yes, sir.

In the Canteen Service——

Mr. GRAY. That's more than your total profits last year, which means that you're going to spend all your profits plus, as you pointed out, you're going to have to reach back and sell off some of your inventories.

Mr. PIPER. It will put us in a very serious position, Mr. Chairman, if it goes through.

I asked the Canteen Service to prepare a document to go to our General Counsel to determine whether or not this is legal. This has been delivered to the Chief Medical Director and he has given to the Administrator—and I understand the Administrator feels strongly about the issue—that the funds should not be taken away from the revolving fund and placed in the general Treasury. That's as far as I can go at the present time.

Mr. GRAY. It hasn't been done yet, but it's contemplated; is that it?

Mr. PIPER. Yes, sir. And I am very concerned about it.

Mr. GRAY. I can understand, that if you're going to have a deficit operation, something has got to go—either personnel or supplies or something.

Let me ask you this. Last year 17 of the 39 management positions in the Central Office and field offices were unfilled. Can you tell us what that number is now? In other words, we're talking about closing these offices and giving more responsibility to the Central Office, and you have got over half your positions vacant, it looks like you have a lot of people moving into the house with not enough furniture to sleep on, as it were.

Mr. PIPER. Mr. Chairman, those positions we have left vacant pending the decision by the Administrator on the reorganization. The intent was not to hire an individual and bring him into Somerville or Denver or Atlanta and then have the problem of relocating him again. So there are less people than there were a year ago at this time. I can submit the exact number for the record for you.

Mr. GRAY. I would appreciate it if you would do that.

(Subsequently the Veterans' Administration furnished the following information:)

As of September 30, 1986, 20 of the 39 management positions in VCS Central Office and the Field Offices were unfilled.

Mr. GRAY. I am wondering how you're going to be able to close all these field offices and bring all of the operation in here when, in fact, instead of hiring more people, you're laying off people. It seems like there's a contradiction here.

Mr. PIPER. I think the people are out there, Mr. Chairman. I just might say that I have looked over the turnover of our canteen chiefs, assistant canteen chiefs, and field supervisors, for the last 3 years, and there is considerably less this year than there was 1 or 2 years ago. The highest number was in 1984.

Mr. GRAY. I think someone is going to have to have a summit meeting here. Your proposals for reorganization are going in one direction and the field is going in another direction. It looks to me like the veteran is going to be squeezed in between. You're taking his money away from him. It was set up explicitly by Congress to be a separate agency, and now they're tapping into the funds. They are proposing to eliminate the people out in the field that are

really interested in seeing a better Canteen Service. Last year there were 17 out of 39 management positions unfilled, and from your indication, that number is even worse now. There is probably more than 17 out of the 39 that are unfilled. I reiterate again, for example, here you're getting ready to load up a bus and you don't even have a driver.

Mr. PIPER. Mr. Chairman, the first leg on the stool is to get that driver. Your other statements are very correct, sir.

Mr. GRAY. We certainly want to work with the Administration on this matter, but as one who sat here hour after hour a year ago, it looks like we're regressing instead of making any progress. I am just wondering when we're going to get this ship of state straightened out.

They're going to come up here and say hey, this was set up under General Bradley's time, and it has been a great service to the veteran, and we're beefing it up and we've got a good reorganization plan. But all we get on one side is proposals, and cutbacks on the other. As I say, we don't want to be hard with the witnesses, but I frankly don't like what I see.

Mr. PIPER. Mr. Chairman, I think one of the things that I was pleased about, that the Deputy Administrator was willing to come up and make known his thoughts, that he wanted to see a resolution of these issues immediately. I think that will be extremely helpful to the Canteen Service.

Mr. GRAY. Also, I notice he left right after he got off the stand, too.

(Laughter.)

He is probably somewhere south of Alexandria right now, and I don't blame him.

Here again, we don't want to be rude. But as a past commander of the American Legion and VFW, and having served 22 years in the Congress, and having a medical center in my district, I think I know a little bit about this subject. I'm certainly no expert on it, but I think I can see, even in the testimony just lying here on the podium, that we're not going any place. One group that knows something about it, these three witnesses, all past directors, are saying this is a bad deal, and the veterans out there are saying it's a bad deal, and the money is disappearing. We know that's a bad deal. And the reorganization plan hasn't been forthcoming. There is no director of the Veterans' Canteen Service. The top people that are supposedly going to manage this thing, instead of the numbers going up, are going down. So it looks to me like we're rearranging the deck chairs on the Titanic. I mean, it's going around and around.

The gentleman from Pennsylvania. I didn't mean to take all the time. They ought to run that little light there for the chairman as well as everybody else.

I apologize to the gentleman from Pennsylvania.

Mr. RIDGE. Thank you very much, Mr. Chairman.

Gentlemen, I appreciate the fact that you did stay, and I did not have an opportunity to make some inquiries, so I have two or three questions I would like to ask.

First of all, I would tell you, Mr. Piper, that I empathize with you because you are not the ultimate decisionmaker. You have

been pushing for a resolution of some of these problems, seeking appointments, particularly to the vacancy of the Director, but you don't have the ultimate authority to do so. So I don't want you to take these observations personally. I guess if you were here with that ultimate authority, we could beat on you a little bit, but you don't have the authority to make that appointment and I think that should be made perfectly clear.

I have some concerns, though, and I would like to express them and have you address them. There seems to be little doubt that the OMB circular does not apply to the Canteen Service. I mean, there may be some question, but from my point of view, let's presume it doesn't apply, that the privatization circular cannot be used to justify what is going on potentially with the reorganization in the VA.

You have, I think, detected from the chairman's remarks and the remarks of the other members—and I suspect, while we dare not speak for the entire committee, resistance on both sides of the aisle to what is going on or what is proposed to go on. There is no support for the effort among veterans' organizations. That's pretty clear. The staff and the people who are served by the Veterans' Canteen Service are opposed to this potential reorganization effort. No one out there in the universe of those relating to the Service or who receive the service seems to feel that it's broken so you have to go about privatizing to fix it.

I would like you to tell me who, in the VA, if anybody, is pushing this initiative, or is there somebody in there marching to the drum beaten by OMB? What I'm saying is, is OMB giving the VA the marching orders? Is it one or two people inside the VA that want to restructure without the support of the committee, the veterans' organizations, the veterans, the people in the Canteen Service?

Mr. PIPER. I can state, Mr. Congressman, that to my knowledge there is no information that we should do this coming from the Office of Management and Budget.

In the VA, I think there are several things. I think there are individuals that feel that we need to move to modernize and create more incentives for canteen chiefs to be able to do what they need to do in the canteen. One of the things that I would like to see—and I think this proposal will move in that direction—is that the canteen chief has more authority over what he does locally, so that he can provide items that are in his area to the veteran patients, to the employees in that hospital that are qualified to buy.

When you have a nationwide organization and you control it on the basis that one thing is good for all, I think that is one of the things that we hope this reorganization plan will correct.

I think the other thing we want to do is we have large canteens—you have heard a lot about large canteens making profits and carrying on for the small canteens. We have several large canteens that don't make a profit, the reason being that the directors out there insist upon certain things that are nonproductive. This means that those that are profitable have to create more profit to carry a canteen that has more patients, more employees, more volunteers, and that, to me, I think needs to be addressed.

I think it can be addressed not only by having field supervisors visit canteens—and, by the way, I thoroughly agree that that function needs to go on—but I think the directors of hospitals need to

realize that canteens need certain sizes of rooms for retail sales. I think they need to realize that we can't keep open all hours of the day and night. I think they have to be more involved. I think that canteen chief needs to feel that he's a part of management and he can fight for his way.

These are some of the things that I hope the reorganization does. None of the reorganization proposals would reduce the integrity or the control of the FTE from the Director of the Canteen Service. So I think there are pluses in considering the reorganization. We want to continue to render the outstanding service that the canteen has rendered to the people.

I couldn't agree more with the three former individuals, that there are a lot of dedicated people out there. We want to continue that. We want to enhance it, and we want to encourage it. That is what the reorganization is about, Mr. Congressman.

Mr. RIDGE. Taking that just a step further, though, you are concerned that some canteens aren't making money, and that some individual medical directors may not be as involved and some canteen directors may be making some, from your point of view, management errors. But it doesn't seem to me that, in those observations, there is the kernel of demise or whatever that justifies a whole reorganization. I mean, if you have any system involved in providing service, you're going to have individual managers involved in the system that may not be operating up to the capacity that you would like to see. But pointing out individual problems at individual facilities doesn't seem to me to justify a total restructuring of the system, a total reorganization.

Mr. PIPER. Mr. Congressman, the only major function would be the abolishment of the three offices. We will still have a buying section that will be separate; we will still have the food section that will be separate. We will strengthen the audit function, where it is now a financial function only, and we will try to make it a management function, so that the Director of the Canteen Service will know what's going on out there instead of just what the financial standpoint is.

There are several things that I think have gotten taken out of context with the abolishment of the three field offices. The Canteen Service is still going to function. It's going to be a separate entity. It is going to control its own destiny.

Mr. RIDGE. You're not going to privatize it?

Mr. PIPER. The A-76 process is running, but we will not privatize it because, of the 74 canteens, where the food service would be contracted—let's analyze that a minute.

There are roughly 1,670 workers in the food service, total. Roughly half of those are in the canteens that we would contract out the preparation of the food service, if the private contractor can come in at less than what it costs us to do. We would still have control of the operation, quality of the food and so on. He would be monitored by the Chief of the Canteen Service. We would control the price that he charges and we would make a profit.

Mr. RIDGE. I don't want to disagree with you with regard to the element of control that you have over a private contractor—we'll save that for another time—and I know the chairman wants to get on.

I would like to ask you one final question. I guess one of the concerns I have, and I suspect the chairman does as well, is that when we recess, hopefully October 3, we may or may not be back in December. So we're looking at October, November, December, January, and probably February before the committee reconvenes on the earliest possible date to continue the examination of this reorganizational effort. Now we're looking at a hiatus of 4 or 5 months. I am thinking in terms of the guarantees that Mr. Gray got a year ago, that they were going to appoint a permanent Director within a few days.

Can you give us any assurance that the reorganization decisions and implementation will not occur until the 100th Congress reconvenes and until the committee has an opportunity to visit it with you?

Mr. PIPER. Mr. Congressman, you started off saying I am not the decision official, and I appreciate your doing that because I would like to use that now. Since I am not the decision official, I have no idea, but I will be glad to convey your thoughts to him.

Mr. RIDGE. That's a great place to end it. Thank you, Mr. Piper.

Mr. GRAY. Thank you, Mr. Ridge.

Our general counsel has a question. We are about to go in session, so I'm sure we can keep it brief.

Mr. CASTEEL. Mr. Piper or Mr. Lindsey, either one can answer this. I am referring now to Dr. Gronvall's letter of September 3 to the chairman on the reorganization of the Canteen Service. In that he indicated they were going to place the VCS audit staff organizationally under the Veterans' Canteen Service, but reporting directly to the Director of Administration. Now, this would appear to be contrary to section 4207 and 4208 of title 38.

Would you care to comment on that?

Mr. PIPER. Yes, Mr. Counsel. That particular item is under review at the present time.

(Subsequently VA furnished the following additional material for the record:)

It would not be unlawful to implement the proposal that the VCS audit staff report to the Director of Administration. More specifically, neither section 4207 nor 4208 preclude adoption of this proposal. The rationale for this view is set forth in a General Counsel opinion, of October 8, 1957, printed below. As regards the role of the Director of Administration, that official is charged to administer the overall operation of the Canteen Service pursuant to a delegation of authority in 38 C.F.R. Sec. 17.161. As such, we see no inconsistency with the statutory scheme in having a VCS audit staff report to that official.

(The October 8, 1947, General Counsel opinion appears on p. 159.)

Mr. CASTEEL. Where would the personnel ceiling and the funds to pay the salaries of this staff be derived from?

Mr. PIPER. It is intended that the audit function naturally, since the canteen is a separate entity, would be provided by the Canteen Service.

Mr. CASTEEL. But the Director of the Canteen Service would have no control over the staff if it reported directly to you?

Mr. PIPER. It was our intent, Mr. Counsel, to review the whole audit function and to include in the audit function those items that the Director of the Canteen Service felt were necessary to see that he was properly monitoring the operation and management of the

Canteen Service. So that document would serve a dual purpose. It would be a financial audit as well as a management audit.

Mr. CASTEEL. Well, let me ask the same question. In Dr. Gronvall's letter he indicated that it was the intent to abolish the Personnel and Administration Division of the Veterans' Canteen Service in the Central Office and to transfer the major part of this function to the Office of Personnel.

Let me again ask you, where will the ceiling and funds to pay the salaries of these people that are going to the Office of Personnel be derived from? Will the Canteen revolving fund continue to pay their salaries?

Mr. PIPER. There are two ways that it could possibly happen—we will have to check the legality of it. The canteen fund has the authority to contract out for services rendered; that would be one way that it could be paid for. In that case, your assumption that it would come out of the revolving fund would be correct, Mr. Counsel.

The second way, of course, would be if there was a way that FTE could be used. It appears that is questionable at the present time. That is also under review at the present time, Mr. Counsel.

Mr. CASTEEL. Under review. Is this under review from a legal point of view, or—

Mr. PIPER. From a legal point of view.

Mr. CASTEEL [continuing]. Administrative point of view?

Mr. PIPER. I would say it is under review primarily from a legal point of view. Obviously, we would want to work it out in the best manner to be effective for the Canteen Service.

Mr. CASTEEL. I have one last question, Mr. Chairman.

A year or so ago it was reported to us that this rumor at that time of reorganization would save over \$1 million a year in the Canteen Service. Now we get the word that substantial amounts of moneys due to the reorganization will be cost-avoided.

What kind of money are we talking about, how much?

Mr. PIPER. Mr. Counsel, I am not sure where you got the cost-avoidance item, but let me address the—

Mr. CASTEEL. We got it out of Dr. Gronvall's letter.

Mr. PIPER. Well, let me state this. In the matter of dollar savings, I am not sure how the \$1 million was arrived at, since I wasn't here. I can tell you, in reviewing the matter with the task force, of which representatives from the Canteen Service participated, in addition to General Counsel personnel and other people, supply people, it is our opinion that over a half-a-million dollars would be saved. Since the canteen makes between \$2.5 and \$3.5 million a year, this is a substantial amount, and I am pleased to report that those figures appear to be very solid.

Mr. CASTEEL. The half-a-million dollars?

Mr. PIPER. Yes, sir.

Mr. CASTEEL. In other words, we can take that now as the figure that you will cost-avoid through this so-called reorganization?

Mr. PIPER. You can take that as the figure that will be a dollar savings, Mr. Counsel.

Mr. CASTEEL. Who is going to save this money?

Mr. PIPER. The Canteen Service revolving fund should increase by that amount.

Mr. CASTEEL. That's all I have.

Mr. GRAY. Thank you.

Thank you, gentlemen. You have been tremendously helpful. Let's keep in touch, for sure.

Mr. PIPER. Thank you, sir.

Mr. GRAY. Our next panel is composed of two old friends, Mr. Paul Egan, Deputy Director, National Legislative Commission the American Legion, and Mr. James Magill, Director, National Legislative Service, Veterans of Foreign Wars. You gentlemen have been very patient and we appreciate you coming forward and appreciate your testimony.

I guess, Mr. Egan, we can begin with you. You may proceed in your own fashion.

STATEMENTS OF PAUL S. EGAN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION; AND JAMES N. MAGILL, DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

STATEMENT OF PAUL S. EGAN

Mr. EGAN. Thank you very much, Mr. Chairman.

First of all, I think it is fairly evident that, by contrast with some of the more glamorous issues like health care and hospital construction and the GI bill, the Veterans' Canteen Service service is relatively insignificant. But what is significant about this particular issue is that it provides a vivid example, a window, if you will, through which we can see what happens when an agency runs completely amock. Whether that is the VA or OMB or some combination of the two is irrelevant. There certainly has been some terrible decision making on this Service.

We suspect—and without anything but anecdotal evidence—that what the VA has done is to make a deal with the devil, by offering to sacrifice the Canteen Service in exchange for a temporary reprieve from contracting out of dietary services in the VA system.

I can't think of anything more—and I doubt if you can, either—that the VA could have done, in addition to what they have done, to cripple this particular Service. The holding of the vacancy of the Director's position for well over a year, the sequestration of the 1986 funds that is now making the Service run on less than a profitable basis, the reorganization plan, all of these things, it seems to me, are designed to create the impression that the system isn't working properly which otherwise, without intervention by the VA Central Office, certainly would operate efficiently.

Now, since September 18 of last year, when this committee held a hearing, the VA promised that we would be kept advised and asked to participate in the decisionmaking pertinent to this Service. We haven't heard anything and this committee hasn't hear anything until it received the September 2 letter which outlined, rather unilaterally, what the VA was planning to do to reorganize this Service. Therefore, we have to conclude that neither this committee nor the veterans' community had any input whatever. We feel that is rather cavalier.

But the VA has also ignored the cost effectiveness of the VCS when it is operating as it should, independently. The VA has ig-

nored the operational benefits of the Veterans' Canteen Service for hospitalized veterans. Certainly we can all agree, and as we have heard today, the uniformity of service provided across the entire system is significant and important to hospitalized veterans, whether they be in large metropolitan hospitals or small rural hospitals.

Now, if the larger canteen services, which we all know support the money-losing smaller ones, were to be contracted out, then the entire system would collapse of its own weight.

The VA, in our judgment, may even have ignored the law with regard to the reorganization plan. The way the law reads in section 4208 is that the Service shall—not may, but shall—function as an independent—not dependent—independent unit within the VA, and shall have exclusive control over all its activities and so on. Well, it doesn't sound to me like the Service is operating independently when the Acting Chief Medical Director says that "I have recommended a conceptual plan and the Administrator has approved the establishment of an implementation task force * * *"

What is involved in the plan? The closure of three VCS field offices and their functions assumed by Central Office and field elements. That, again, is not independence of operation. The VA seems to have pursued a policy on this particular Service that is predicated more on zeal than on sound public policy decisionmaking underpinnings.

Now, we can certainly agree that this administration has a clear bias in favor of contracting out and privatization. The wisdom of that bias may be arguable, but it is underpinned by a clear idea of what constitutes sound fiscal policy. But in this case, we are seeing the complete substitution of the justification for that bias with a desire to simply, willy-nilly, contract a service out that is making money, operating at a profit, and operating efficiently. That doesn't make any sense to us whatsoever.

Finally, Mr. Chairman, what we believe the VCS needs at this particular point is a Director, as soon as possible, but not just any Director. If the VA decides to appoint a Director who has no field experience, who hasn't got the background to operate the system as it's intended to operate, then the appointing of a director, in and of itself, is not going to be very helpful.

Secondly, we think this Service ought to be given the freedom to restore the morale which over the last year has been allowed to decline precipitously and it needs the freedom to provide uninhibited services to the hospitalized veterans that the Service was intended to serve.

Thank you.

[Prepared statement of Paul S. Egan appears on p. 162.]

Mr. GRAY. Thank you, Mr. Egan, for a very forthright and informative statement. I want to say at least this one member agrees with everything you had to say.

Do you have an extra copy of Dr. Gronvall's letter that, without objection, we could submit for the record with your testimony, because I think it is pertinent to your testimony.

Mr. EGAN. Very good.

Mr. GRAY. Without objection, the letter will be submitted for the record.

[The letter of Dr. Gronvall appears on p. 168.]

Mr. GRAY. Mr. Magill, we're glad to see you this morning. You may proceed in your own fashion.

STATEMENT OF JAMES N. MAGILL

Mr. MAGILL. Thank you, Mr. Chairman, for the opportunity to present the views of the Veterans of Foreign Wars with respect to the Veterans' Canteen Service. We believe the Canteen Service has a definite place within the Veterans' Administration. It serves veterans well and should continue to be run and staffed by the VA.

As we all know, prior to the establishment of the Service, various entrepreneurs recognized the potential profitability of catering to the various needs of hospitalized veterans not normally provided by the Veterans' Administration. However, many complaints were registered with the Veterans' Administration, forcing the VA, as we have heard, to conduct a thorough investigation of the system. Of course, the product of that investigation was the creation of the Veterans' Canteen Service.

Today, though, it appears that the Office of Management and Budget and, to some degree, the Veterans' Administration, have not learned the lessons of history.

OMB is proposing to contract out some of the Veterans' Canteen Service food service operations. As we have already indicated, it was because of the inadequate service provided by the private sector that the VA initially had to create the Veterans' Canteen Service. The VCS, as we have heard, has proven to be a financial asset to the VA. It is not a liability. It is for this reason that we cannot see why OMB would even consider contracting out. Why take profits away from the Government and give them to the private sector? It just does not make sense to us.

Taking the foregoing into conclusion, it appears to the VFW that it would be a big mistake and just plan overkill for this profitmaking, VA-controlled enterprise to be swept up in the A-76 process.

It has also been brought to our attention that the Veterans' Administration is taking under consideration the reorganization of the Veterans' Canteen Service. Again, as one of the few profitmaking entities within the Federal Government, we strongly question the need or the wisdom of reorganizing a successful program. Certainly the primary motivation behind any reorganization should be the correction or repair of evident shortcomings or ineffective or inefficient operation. If anything, the reorganization plan proposed by the VA would, in our opinion, hinder more than help and already successful program.

In closing, it should be no surprise to you that we are, as everybody else has pointed out, very disappointed that there is not a full-time Director of the Veterans' Canteen Service since March of 1985. It has been brought to the attention of the committee that the VA recognizes how the lack of a full-time Director has contributed to the low morale of the staff of the Veterans' Canteen Service. I would like to point out that just the thought of contracting out and possibly staff people losing jobs, that certainly does not contribute to the morale of the Veterans' Canteen Service.

This concludes my statement and I will be more than happy to respond to any questions you may have.

[Prepared statement of James N. Magill appears on p. 166.]

Mr. GRAY. Thank you, Mr. Magill, also for a very enlightening and forthright statement.

Mr. Egan, on page 3 of his testimony, I think put it in a very good capsule form. "Reorganization of the Veterans' Canteen Service makes no sense from a fiscal, public policy, or service to hospitalized veterans perspective, and proceeding with reorganization may even be illegal."

Do you agree with that? That's Mr. Egan's statement and I'm asking Mr. Magill.

Mr. MAGILL. Yes, very much.

Mr. GRAY. I know Mr. Egan agrees with it. It's his statement.

Mr. MAGILL. I agree, yes, sir. We do question the legality of this whole thing.

Mr. EGAN. Mr. Chairman, if I could just add one thing to that.

Mr. GRAY. Yes.

Mr. EGAN. Obviously I agree with it; I wrote it. But if it isn't illegal, it ought to be. If the VA wants to operate this service by contracting it out, whether in part or in whole, then it just seems to me, given the law as it's currently written, the VA ought to have the courage of their convictions sufficient to come forward to this committee with a legislative proposal to do just that, and then permit this committee to work its will on that bill.

Mr. GRAY. What are your feelings, gentlemen, on the fact that this fund ought to be drawing interest instead of lying dormant?

Mr. EGAN. It sounds like a good idea.

Mr. GRAY. Would you support legislation along those lines?

Mr. EGAN. We most probably would.

Mr. MAGILL. Yes, sir, I think we would, too.

Mr. GRAY. I have a suggestion. If we could get them to make two positions out of the Director of the Veterans' Canteen Service, Mr. Egan and Mr. Magill. I think we could solve this whole problem right here.

(Laughter.)

Or if you would want to flip a coin, we would recommend one of you.

Serious, the minority counsel has some questions. The gentlemen is recognized.

Mr. Kingston SMITH. Thank you, Mr. Chairman.

These are very strong and effective statements by the VFW and the American Legion, and I think they should be commended for them.

Has the VFW, Mr. Magill, been consulted or kept advised or provided information about the organization of the Veterans' Canteen Service?

Mr. MAGILL. As far as I know, we have not. In fact, I thought it was sort of ironic that when the word came out that the subcommittee was going to have the hearing, at about that time or shortly thereafter, that's when we were made aware of the letter from the Deputy Medical Director.

Mr. Kingston SMITH. Mr. Egan, can you give us any more information about the survey that you mentioned, without compromis-

ing any sources, regarding the views of medical center directors on the reorganization of the Veterans' Canteen Service?

Mr. EGAN. What we have learned from our field visits is that such a survey of hospital directors was undertaken, either just prior to last year's hearing or just after it, and that according to the individuals that reported on it to us out in the field, there was a great deal of unanimity about leaving the Canteen Service to the canteen director.

Mr. Kingston SMITH. Thank you.

Those are all the questions I have, Mr. Chairman.

Mr. GRAY. Thank you, counsel.

There being no further questions, I would like to ask unanimous consent that the record be left open for any questions of any members to be propounded to any of the witnesses today, particularly those from the Veterans' Administration. Hearing no objection, the record will be left open for questions.

We want to thank all the witnesses for coming out. With that, the committee stands adjourned.

[Whereupon, at 11:20 a.m., the subcommittee was adjourned.]



APPENDIX

VETERANS CANTEEN SERVICE

STATEMENT OF THOMAS E. HARVEY

DEPUTY ADMINISTRATOR

VETERANS ADMINISTRATION

BEFORE THE SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS, COMMITTEE ON VETERANS
AFFAIRS, HOUSE OF REPRESENTATIVES

SEPTEMBER 24, 1986

Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to appear before this Subcommittee for the first time and to discuss major issues involving the Veterans Canteen Service (VCS), specifically reorganization of the Service, contracting out canteen food services and the status of the position of Director of the Service.

Reorganization of VCS

We are pleased to have an opportunity to discuss the reorganization of the Canteen Service. You sought testimony on that subject at the previous hearing on VCS in September, 1985. We are disappointed, frankly, that a reorganization has not yet been effected, and that VCS employees remain uncertain about the outcome and impact of this long-unresolved issue.

Let me underscore that the Administrator is strongly committed to a reorganization of the Service. As you may know, the Agency has had two distinguished management consultants conduct an extensive examination of the Canteen Service, culminating in a recommendation that the Service be reorganized. Their recommendation and internal VA analysis have identified several reasons for reorganizing the service: (1) that the present VCS organizational structure offers limited incentives for innovation and creativity on the part of individual Canteen Chiefs to respond to local market factors, to VA medical center needs and to the specific needs of their customers; (2) that canteens should be more fully integrated into individual medical centers; and (3) that communications between VCS Central Office, individual canteens and medical center management must be improved.

In early July, the Administrator advised the CMD that he had approved the reorganization plan in concept, and directed him to form an intra-agency task force to undertake the development of a detailed reorganization plan. The detailed plan was recently submitted to the Administrator and is currently under review in our staff offices. The principal features of the proposed reorganization are: (1) the three VCS field offices will be closed at the earliest opportunity and their functions transferred to VCS Central Office (VCS CO), and to VA medical centers (VAMCs); (2) VA medical center management will be provided greater participation in the operation of medical center canteens. Medical Center Directors will be the rating officials for Canteen Chiefs, subject to the concurrence of the Director, VCS; (3) Management of VCS funds and personnel will be retained by the Director, VCS; (4) The position of Financial Manager, VCS, will be established to provide the VCS with a centralized office to administer its revolving fund, budget and financial operations; (5) A VCS Planning and Program Evaluation Staff will be established to develop and coordinate planning and evaluation activities; (6) A VCS Field Liaison Division will be established to provide VCS CO direction, coordination and accountability for the VCS' canteen operations; (7) Options for placement of the audit function remain under review.

We recognize that the development of the reorganization plan entailed extensive staff work and painstaking review to ensure that the plan defined clearly the respective responsibilities of the VCS Director, the Department's Regional Directors and the Medical Center Directors. Yet we share the frustration of those who have long awaited definitive resolution of this issue. That is this Administrator's goal, and one which, I believe, will result in the most effective possible arrangement.

OMB Circular A-76

The Administrator is also committed to improving, to the extent possible, the efficiency and economy of the canteen food services through the A-76 process. Seventy four of the 172 food services have been identified as meeting the requirement for study, namely that they employ ten or more personnel. Since your 1985 hearing, 50 of the 74 food services designated for study in FY 86 carried out so-called "most efficient organization" (MEO) studies under the Circular process to ensure that their operations are the most efficient and effective possible preparatory to developing their in-house bid -- the bid which will be compared to the bids of outside contractors at bid-opening time. To date, no canteen has reached the bid-opening point. Recently, the VA, in response to an OMB transmittal, extended the earliest bid-opening date to October 30, 1986, to allow all Federal activities affected by A-76 to factor into their in-house bid computations the cost of the new Civil Service Pension Plan. If an outside contractor wins a bid, the contractor will provide personnel necessary to operate the canteen's food service. In that event, the canteen's management staff will be directed to work closely with the contractor's staff to ensure that the contractor operates in accordance with the requirements and quality standards specified in the food service's performance work statement, the statement upon which the bids were based.

VCS Director

We recognize that the absence of a Director has compounded frustrations regarding what direction Canteen Service may be taking. Let me stress, Mr. Chairman, that filling that position is a high priority, and that the Acting Chief Medical

Director has assured us that he will present the Administrator with his nomination to fill that position within 4 to 6 weeks.

Mr. Chairman, we are moving forward toward what we believe will be a more efficient Canteen Service, and one which will serve our veterans well. We hope to earn your confidence and support in that effort.

That concludes my formal testimony, Mr. Chairman, and I welcome the opportunity to respond to your questions.

VETERANS CANTEEN SERVICE

Results of a Survey of VA Medical Center Directors onVeterans Canteen Service (VCS)

On September 12, 1985, a survey of VA Medical Center Directors was conducted by the Department of Medicine and Surgery to obtain their opinions on several aspects of the Veterans Canteen Service. (See attachment—Telegraphic Message sent to all VA Medical Center Directors.) The Directors were asked to rate their Canteen Service on a 5-point scale, Excellent to Poor.

Below are the number of Directors' responses relating to each item in the questionnaire.

NUMBER OF RESPONSES

<u>Item</u>	<u>Excellent</u>	<u>Superior</u>	<u>Good</u>	<u>Poor</u>	<u>Very Poor</u>
Quality of Food Service	29	53	56	10	-
Food Hours Satisfaction	38	37	54	14	-
Food Variety	24	54	57	9	-
Responsiveness to Customer	35	51	43	3	-
Employee Attitudes (Food)	42	54	39	7	2
Retail Hours	29	45	65	5	2
Appropriateness of Goods	36	56	50	2	-
Appropriateness of Mix	37	60	44	2	-
Product Responsiveness to Employee Needs	36	55	49	3	-
Product Responsiveness to Patient Needs	47	58	35	2	2
Employee Attitudes (Retail)	62	50	26	4	-

It is clear from the responses that most Medical Center Directors rate their canteens very highly on all items. For example, 29 Directors thought the quality of the food service was excellent, 53 thought it was superior and 56 thought it was good. Only 10 thought it was poor. Similar response patterns can be seen for the other items.

Question 12 in the questionnaire was open-ended asking the Directors what changes they would make if given the opportunity.

The responses grouped by frequency were:

- | | |
|--|------|
| 1. Give the Medical Center more control of the canteen | : 35 |
| 2. No changes needed | : 20 |
| 3. Improve food operations and management | : 19 |
| 4. Improve variety in retail store | : 9 |
| 5. Improve pay of food service workers | : 8 |

Other less-frequently cited issues were:

1. Expand hours of canteen operations
2. Give canteen more space and better equipment
3. Eliminate sale of tobacco products
4. Retain field offices

TELEGRAPHIC MESSAGE

NAME OF AGENCY VACO WASH D C		PRECEDENCE ACTION: P INFO:	SECURITY CLASSIFICATION
ACCOUNTING CLASSIFICATION		DATE PREPARED 9/12/85	FILE
FOR INFORMATION CALL			
NAME JOHN BRADLEY		PHONE NUMBER 389-2706	TYPE OF MESSAGE ☐ SINGLE ☐ BOOK ☐ MULTIPLE ADDRESS
THIS SPACE FOR TEXT OF COMMUNICATION UNIT			
MESSAGE TO BE TRANSMITTED (Use double spacing and all capital letters)			
TO: ALVAMC OO/SUBJ: VETERANS CANTEEN SERVICE (VCS) 1. ON 9/18/85, A GENERAL OVERSIGHT HEARING CONCERNING THE OPERATIONS OF THE VCS WILL BE HELD BEFORE THE HOUSE VETERANS AFFAIRS COMMITTEE. THIS IS THE FIRST SUCH HEARING IN THE NEARLY FORTY YEAR HISTORY OF THE VCS. 2. TO PREPARE ADEQUATELY FOR THIS HEARING, WE NEED YOUR GUIDANCE AND ADVICE ON SEVERAL AREAS OF CONCERN, OR ITEMS OF PROBABLE INTEREST TO THE COMMITTEE. 3. PLS. ANSWER EACH QUESTION WITH THE APPROPRIATE NUMBER, 1 THRU 5: 1- "EXCELLENT" 2- "SUPERIOR" 3 - "GOOD" 4 - "POOR" 5 - "VERY POOR" 4. Q 1. WHAT IS YOUR ASSESSMENT OF OVERALL QUALITY OF VCS FOOD SVC? Q 2. ARE YOU SATISFIED WITH HOURS OF VCS FOOD SVC. OPERATIONS? Q 3. HOW ACCEPTABLE IS THE FOOD VARIETY? Q 4. TO WHAT DEGREE IS VCS FOOD SERVICE RESPONSIVE TO ITS CUSTOMERS? Q 5. WHAT IS YOUR OBSERVATION OF THE ATTITUDE OF VCS FOOD SVC. EMPLOYEES?			
		SECURITY CLASSIFICATION	
PAGE NO. 1	NO. OF PGS. 2		

TELEGRAPHIC MESSAGE

NAME OF AGENCY	PRECEDENCE ACTION INFO.	SECURITY CLASSIFICATION
ACCOUNTING CLASSIFICATION	DATE PREPARED	FILE
FOR INFORMATION CALL		
NAME	PHONE NUMBER	TYPE OF MESSAGE ☐ SINGLE ☐ BOOK ☐ MULTIPLE ADDRESS
THIS SPACE FOR USE OF COMMUNICATION UNIT		
MESSAGE TO BE TRANSMITTED (Use double spacing and all capital letters)		
TO: Q6. ARE YOU SATISFIED WITH HOURS OF VCS RETAIL STORE? Q7. DESCRIBE THE APPROPRIATENESS OF THE VARIETY OF PRODUCTS SOLD IN YOUR VCS RETAIL STORE. Q8. DESCRIBE THE APPROPRIATENESS OF THE MIX OF RETAIL PRODUCTS, GIVEN YOUR FACILITY'S MISSION. Q9. ARE THE RETAIL PRODUCTS SOLD RESPONSIVE TO YOUR EMPLOYEES' NEEDS? Q10. ARE THE RETAIL PRODUCTS SOLD RESPONSIVE TO NEEDS OF YOUR PATIENTS AND THEIR FAMILIES? Q11. WHAT IS YOUR OBSERVATION OF THE ATTITUDE OF VCS RETAIL STORE EMPLOYEES? Q12. WHAT CHANGES WOULD YOU MAKE TO VCS, IF GIVEN THE OPPORTUNITY? NOTE: ALL RESPONSES WILL BE SUMMARIZED BY QUESTION, AND NO INDIVIDUAL VAMC'S ANSWERS WILL BE IDENTIFIABLE FROM THIS SURVEY. 5. PLS SEND YOUR ANSWERS TO THESE QUESTIONS IN THE FOLLOWING FORMAT BY PRIORITY TWX TO ACMH FOR ADMINISTRATION (13) BY COB MONDAY, 9/16/85: Q 1. 3 Q 2. 1 Q 3. 2 ETC. 6. YOU SHOULD FEEL FREE TO ADD ANY NARRATIVE TO YOUR ANSWERS THAT YOU BELIEVE WOULD BE HELPFUL OR INSIGHTFUL FOR THIS HEARING. THANK YOU FOR YOUR ASSISTANCE. 13/105 JBradley:bl 9/12/85 13		
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215-894-8243

September 13, 1985

Dr. Robert Leyton
Veterans Canteen Service
806 15th Street NW
Washington, D.C. 20005

Dear Dr. Leyton:

Nice to talk with you today. I do recall our meeting of last February in Ms. Quandt's office when we reviewed the operating structure and practices of the Canteen Service. If I recall correctly, the meeting involved, in addition to ourselves and Ms. Quandt, Dr. Ghosh of New York University and John Bradley and Dick Percival of the Canteen Service.

I believe that Dr. Ghosh and I were called on because of concern for the operating and revenue consequences of a possible deletion of cigarettes from the product line and the steps which the Canteen might take to offset the lost revenue.

As we discussed various aspects of the Canteen operations, it soon became apparent that the problems of the Canteen system were much more extensive. Given its mission, it is by no means clear that the present organization and current procurement and operating policies are the most effective way to to accomplish the mission.

As one example, I recall being somewhat shocked at the manner in which the smaller canteens were being supplied and suggested that the system may be paying higher prices than necessary because of the support requirements being required of manufacturers which might better be provided by local servicers such as rack jobbers or local distributors. There was also a question of whether with modern inventory management and communication tools, including computerization, inventory management functions and quite possibly item selection decisions might be performed more effectively on a centralized basis.

Although a single day meeting of this type can yield an overview of problems and issues, it cannot, of course, be expected to produce definitive recommendations and was not, I am sure, intended to do so. It did seem clear to me, and I believe to others present, that the time was perhaps overdue not only for a study of various operations (e.g. stocking decisions, inventory management, procurement policies) but also for a basic examination of what the system is supposed to do and whether the present structure is, in fact, appropriate. My impression, based on this limited exposure, is that both organizational and operational changes will be called for.

Sincerely yours,



Charles S. Goodman
Professor of Marketing



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September 16, 1985

Dr. Robert A. Layton
Acting Director (133)
Veteran's Canteen Service
Veteran's Administration
810 Vermont Avenue N.W.
Washington, D.C. 20420

Dear Dr. Layton:

Enclosed are two copies of a short report based on my conversations with the VCS staff and on the documents and reports provided by you. I hope you will find it useful. I will be happy to answer any other questions that you may have.

Look forward to hearing how everything goes.

Best wishes,


Avijit Ghosh
Associate Professor
of Marketing

The following comments are based on my discussions with the VCS staff at Washington and on the basis of studying the reports and documents provided by the VCS staff. In summary, I would like to make the recommendations listed below. The following pages discuss these in more details.

- (1) The needs that the service is attempting to fulfill should be clearly defined.
- (2) Establish an overall merchandising objective which reflects the needs established in (1).
- (3) More flexibility in terms of merchandising must be allowed to individual units.
- (4) Undertake research to determine needs and preferences of target users.
- (5) Implement comprehensive POS and Information system to upgrade present system of feedback and control.

The service should clearly establish the need that it is to fulfill and achieve a link between this need (or needs) and the operating philosophies and policies of the service. As laid down by Congress the primary mission of VCS is to "provide veterans receiving medical treatment at VAMCs with reasonably priced merchandise and services essential to their comfort and well being." All operating policies and decisions must emanate from this goal.

To achieve this a great degree of organizational and merchandising flexibility is needed to satisfy the requirements of the target group. Flexibility is needed, for example, in setting merchandising policies. While some overall control on the type of merchandise which will be allowed to be sold through the stores is necessary, individual stores must have greater flexibility in designing their merchandise assortment to fit the needs of local users. The present policies seem to be highly centralized with limited flexibility for individual units to adopt merchandise and operating policies to local requirements.

Needed, therefore, is a statement of the central focus for the merchandising policy. At the same time, there must be a degree of flexibility so that individual units can adopt to local demands within the confines of the overall focus. In creating this overall focus, however, it is important for the service to clarify more clearly the role it is supposed to fulfill. It seems that the current merchandising policy is aimed at fulfilling three types of needs:

- (1) needs of veterans while they are at the hospital;
- (2) needs of veterans for goods and services that are not necessarily needed during their stay at the hospital;
- (3) needs of the doctors and staff of the hospitals.

It is important to critically examine this issue in order to determine the overall goal of the service. While one may conclude that all three types of needs are important and the service try to cater to all of them, this should be a result of a conscious policy decision rather than of unplanned expansion as it seems to have occurred.

In order to serve the needs of the group for which the service is designed, it is necessary to periodically assess what the needs of the group are. It is strongly recommended that studies be undertaken to determine the types of goods and services desired by the users. It should be stressed that sales is not necessarily a good indicator of this. This is especially the case since it is not clear as to what portion of current sales is attributable to the patients (the target group) and what portions to other users. Moreover, analyzing past sales does not

indicate what goods and services not provided now should be added to the merchandise assortment. Only through user studies can one establish the types of merchandise and services that should be provided and local variations in those patterns.

In addition to flexibility in merchandising policies another area of concern is the buying operation. Here, too, it seems that the service should seriously examine some of its past policies. Following a strict policy of buying directly from manufacturers on all occasions, for example, may be inefficient for many items. The buying office should investigate alternative means of distribution such as buying from local wholesalers and distributors and seek the least cost option. Moreover, for some low cost items, it may be even desirable to allow consignment sales by local vendors. In addition to the possibility of reducing costs, for smaller units the use of rack jobbers is likely to reduce manpower requirements and operating costs. The best distribution system is likely to vary from one geographical region to another and may also depend on the size of the unit in question. It is important, therefore, that instead of creating a single policy applicable to all units, as the present practice seems to be, a more decentralized approach be advocated. This, however, does not exclude the need for centralized coordination to rationalize individual plans.

In order to implement a flexible merchandising policy it is also necessary to institute a management information and control system. The present sales tracking and reporting system seems inadequate for such a large and geographically dispersed organization. The service should institute more efficient point of sale systems as well as computerized reporting systems which would allow faster reporting of sales of individual items and provide quicker feedback to senior personnel regarding the performance of individual items as well as individual service outlets. The benefits of greater accuracy in cash management and ultimate saving in inventory costs will in the long run far outweigh the cost of instituting such a system.

THE VETERANS CANTEEN SERVICE: AN AUDIT OF MARKETING & MANAGEMENT POLICY

Preface

The following study was produced by six senior undergraduate students at The Wharton School of The University of Pennsylvania as part of the senior requirement for the marketing major. All opinions expressed herein are solely those of the authors. Dr. Charles Goodman, the course instructor, served in an advisory capacity only. The Wharton School bears no responsibility for the content of this report.

The research outlined below was constrained by the limited time frame of the study (September 1985 to December 1985) and limited resources. The VCS provided for the costs of producing this report, but offered no other stipend. All sources of information within the VCS, other than the central office, remain confidential. Within the confines of the information available, the VCS was treated as a case study in marketing management policy.

The primary purpose of this study is academic in nature. Any questions, comments or problems with this report should be directed to Craig Frischling or James Franklin [see below]. The group wishes to thank the VCS and its employees for allowing us to study their organization. The opportunity to study this organization has been invaluable for us and we hope that it was also valuable for the VCS.

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Chapter 1: Problem Definition

The success of an organization depends largely upon the manner in which it deals with its unique business environment. The Veterans Canteen Service (VCS) is a truly unique institution. It is government run, yet it is for the most part self supporting. It is a retail organization, but is mandated to perform as a service organization. The VCS must deal with problems unique in retailing: store location is chosen *a priori*, it can do little about space constraints, it may not advertise outside of the hospital community, it cannot use loss leaders, and its revolving fund makes it financially illiquid. However, it also has some unique advantages: it has a captive market, it has little competition, it is granted government pricing agreements by vendors, it is untaxed.

This is all a part of the unique business environment of the VCS. A thorough examination of strengths and weakness, of mission and goals, and of potential in its marketplace could help management steer the VCS along the optimal path. Yet, the VCS has not performed the basic and critical steps of self analysis. The VCS attempts to employ a combination of government and private sector algorithms for organizational design and business policy, but has never tailored a plan to its unique and specific needs.

After critical examination of the VCS, it is the researchers' opinion that the VCS has no clear and consistent methodology for setting and achieving its goals. Imposing both government and private industry standards upon the VCS without *a priori* commitment to specifically defined goals only serves to thwart success and confuse the issues which management must clearly understand.

The VCS follows the lead of other institutions as analogy dictates. This is a key problem not because the VCS should be a leader but because it should be an innovator. The VCS is an institution largely unto itself and it must realize the potential and limitations of its own position. After this realization, it must act to do what is optimal

for the organization given the environment.

The goal of this analysis is to bring the VCS in closer touch with its organizational environment and strongly suggest that it examine its policies with respect to its long range goals and its business environment.

Chapter 2: Research & Methodology

Originally, the analysis was designed to address the contention that the VCS was not paying careful attention to the external factors of its business environment in its marketing design and other business policies. After the initial meeting with Dr. Leyton and his deputies in Washington D.C. it was determined that the VCS had no clear program for charting its customers' characteristics, purchasing behavior or satisfaction levels. Additionally, competitive factors seemed to be summarily ignored. We saw immediate implications to product and promotion policy. Based on the following economic model [Desarbo, 1985; personal communication]:

Success (service, \$, etc.) = $f(\text{Environment, Competition, Customer Characteristics, Marketing Mix})$
 in which the Marketing Mix (Price, Product, Promotion, Distribution & Personnel) is considered the only factor which a firm may influence as a reaction to the other exogenous factors.

it is the researchers' opinion that the VCS has not linked its marketing mix to the exogenous factors which weigh so heavily on its success.

In order to address that basic and broad problem, a four-tiered research methodology was designed to study the VCS customer and discover what VCS policies truly were out in the field. The methodology consisted of:

1. VCS Customer Survey:

Purpose: To obtain information that will allow us to correlate demographic variables with consumer behavior.

Method: In-store written survey, administered by the sales clerk to a random sample of VCS customers. Surveys are to be distributed and returned by the 172 VCS managers.

2. Manager Conference:

Purpose: To provide a forum for discovering the local interpretation of national policies and the characteristics of present VCS communication channels which may affect the success of any strategic planning.

Method: Structured discussion with nine (9) VCS managers held in Philadelphia on October 24, 1985.

3. Manager Telephone Interviews:

Purpose: To obtain market information about specific canteens which is not readily available elsewhere (ie. local branding and pricing issues, local product preferences, general as well as idiosyncratic canteen needs and problems).

Method: Personal phone interviews [~10 minutes each] with twenty (20) canteen chiefs across the country selected at random.

4. Patient Interviews:

Purpose: To gain insight into the needs and desires of our preferred customer which are not given to statistical evaluation.

Method: Personal Interviews (10-15 minutes each) with consenting patients in public areas (pending approval by the VCS, VA, and local officials) of several Delaware Valley VA hospitals.

However, all efforts towards a consumer oriented research plan had to be abandoned. The VCS, as a part of the U.S. government, must abide by all government agency regulations. One of these is the stipulation that the Office of Management & Budget (OMB) must approve all studies of more than six human subjects. Since any survey or interview of patients or customers falls under this classification, OMB approval would be necessary before any research could proceed. Approval, however, requires a minimum of forty-five (45) days, well past the time frame of this study. We recommend that the VCS submit the survey [Appendix IA] for approval and implement it itself at a future date.

A pretest of this survey was run in the Philadelphia canteen, (before the group was aware of the OMB regulation) and helped shape our future research. Briefly, the results indicated that the VA hospital employee was a substantial segment of the VCS market and required more attention than previously believed. Further conclusions would be misleading due to the small sample size (N=37) and the lack of controls. Recommendations for future testing may be found in Appendix IA.

Unable to study the customers of the VCS, we resolved to concentrate on the internal management of the organization; specifically, communication channels and

policy implementation in the field. The revised research outline includes manager interviews, a manager conference and a computer assisted analysis of VCS sales data for the most recent fiscal year.

The first stage of our research (after the customer survey was abandoned) was the conference with nine (9) canteen chiefs. The conference was held in the Philadelphia VA Hospital. Eligible participants (all VCS canteen chiefs) were chosen based on their proximity to Philadelphia. Then nine canteen managers were chosen at random. The Philadelphia manager was excluded to help insure that all participants considered each other equal and no one would be subject to any specific scrutiny.

On October 24, 1985, from 10 AM to 3 PM, a structured discussion was held concentrating on three broad topics: Managerial Environment; Product Policy; and Promotion Policy. Managers were presented with an outline of the discussion topics and the day's agenda. Both the outline and the agenda are included in Appendix IB.

The conference challenged some of our initial assumptions (gathered from VCS literature and the initial visit to Washington) and clarified others. The managers indicated that the central office makes policy, but that implementation takes place at the field office or canteen level. Managers seemed unified in the opinion that the VCS emphasizes service over profit. They portrayed the field office as the cornerstone of the organization, serving as both a source of information and technical assistance.

Our initial assumption that the Basic Merchandise List (BML) served to define the VCS product policy was rebuffed (thus warranting further analysis). Managers at the conference claimed that their mandatory BMLs accounted for only 30% of their total sales volume. Our presumption that a large national organization might be faced with major communication problems was challenged. The managers believed that the present communication was sufficient and quite effective.

In order to test the validity of the information gathered at the conference and determine further answers to research questions concerning the policies of canteen chiefs in the field, telephone interviews with twenty (20) managers were conducted.

From October 31 until November 8, 1985, managers throughout the country were telephoned at random and asked to participate in a survey. A standardized question list was used [Appendix IC] to minimize interviewer bias and insure that important issues were covered. A sample of the interviews is also presented in Appendix IC for the informal examination of the reader. No numerical analysis was performed on either the results of the conference or the interviews since all of the data gathered was subjective and qualitative.

The findings contradict some of the manager conference findings especially in the areas of financial criteria as a part of store success and the effectiveness of communication channels. Managers interviewed by phone reported a greater emphasis on financial criteria as a measure of success, less satisfaction with the communication and a greater reliance on the BML than those who attended the conference. These contradictory results may indicate that group conformity played a hand in biasing some results and stresses for both the researchers and the readers the variability and subjectivity of the information upon which the analysis is based. It is important to realize that where there is a question of facts, logic (not evidence) prevails. Any conclusions drawn from this study must be evaluated with the realization that the data is indefinite.

Throughout the entire research period, contact was maintained informally with the central office, the financial office and field offices as questions or problems arose. The central office and one field office were specifically contacted in mid-November as a final cross check of our current information.

Finally, an analysis was performed on information provided by the financial office in St. Louis. The Canteen Master List and sales data for the individual canteens from August 1984 to July 1985 were jointly analyzed to determine what factors were most associated with the economic success of the canteens. The data used from the Canteen Master List includes: number of hospital beds at each facility, number of patients, number of employees and square footage of each canteen. This information

is approximately two years old and may not be wholly accurate. It was used only to classify the canteens and may not be used to evaluate any one individually. The sales data, however, is current and accurate. Totals are subdivided into tobacco products, candy, clothing and sundries. Information on 164 of the 172 canteens was gathered; 127 cases having complete information. This data was entered into The Wharton Schools DECsystem-10 mainframe computer and analyzed with the SPSS (Statistical Package for the Social Sciences) software run on that system.

Caution was taken with the data set since there is a distinct possibility that it is not wholly accurate. An assumption was made that although specific numbers may not be accurate, the general ranking of the canteens (with respect to resident population) does reflect reality. The potential customer was defined as employees plus patients. Sales (in dollars) per potential customer was then computed. The 127 canteens with complete data were then ranked based on their sales per potential customer.

The average was about \$400 per customer, ranging from \$179 to \$1036 per customer. The top and bottom quintiles (25 cases) were compared for the information available. The top performer (San Juan, PR @ \$1036/customer) was thrown out of the general analysis based on the assumption that it was an outlier. The next highest performer achieved \$682 per customer and was more consistent with the total group (seven canteens had more than \$600/customer). Presumably, the Puerto Rican canteen faces a vastly different economic environment than the continental canteens and should not be compared with them.

The two groups were assumed to represent strong economic performers and weak economic performers. Student t-tests were performed comparing the two groups based on total sales volume per canteen, number of potential customers, square footage of canteen, percentage of market that are employees or patients and percentage of sales volume attributable to each of the four product categories. Results of this analysis are discussed in Chapter 3, §4 and are included in Appendix II.

Chapter 3: Analysis and Implications

§ 1: Organizational Mission and History

In 1946, Congress established the VCS as an instrumentality within the VA under Public Law 636. The organizational mission of the Veterans Canteen Service (VCS) is to "make available to [hospitalized] veterans at reasonable prices, articles of merchandise and services essential to their comfort and well-being."¹

Prior to that time, VA hospital cafeterias and retail outlets were contracted out on an individual basis to concessionaires with the end result that the facilities lacked unity in marketing and management policies and in operational procedures. Some VA hospitals possessed no canteen facilities at all. As veterans of the Second World War returned to the United States in large numbers, the inadequacies of this system of concessionaires became painfully apparent and Congress voted to establish the VCS.

Under Public Act 636, VCS facilities were mandated for every VA hospital and minimum requirements and standards were determined for the network of facilities. Self-ownership replaced the private concessionaires and centralized pricing, procurement, promotion, and financing policies were developed. Public Act 636 dictated that the VCS be self-sustaining. A revolving fund was established into which the proceeds of operations flow and from which financial resources are drawn. This mandate for self-sufficiency distinguishes the VCS from the military PX system, for the latter is funded by annual appropriation and is not responsible for sustaining itself.

During the first year of operations, the network registered \$16 million in combined sales from retail outlets and cafeterias. This network had grown to 172 facilities grossing \$175 million in 1982.²

§ 2: Operating Environment of the VCS

Three layers of management constitute the VCS organizational structure. The central office, located in Washington, D.C., is the policy making component of the organization and exercises ultimate administrative, operational, and financial control. The central office consists of a director, deputy directors of operations and administration, and a series of division heads. Directors of the Store Management & Services, Food Management, and Design & Layout Divisions report to the Deputy Director of Operations while the Directors of the Finance & Budget, Merchandise, and Personnel & Administrative Divisions report to the Deputy Director for Administration. Procurement officers, or buyers, report to the Merchandise Division within the central office [Appendix IIIA].

Three field offices located in Somerville NJ, Atlanta GA and Denver CO constitute the middle layer of the organization. A field director and an assistant field director oversee each field office and three to four field supervisors are charged with maintaining contact with the canteen chiefs. It is these field supervisors who are responsible for the financial results of the canteens in their territories, for evaluating the canteen chiefs annually and helping to determine award and promotion recipients. Field supervisors communicate problems and ideas to the field directors and assistant directors. Field directors both receive and transmit information from the central office to the canteen chiefs and vice versa.

Canteen managers and their assistants oversee the day-to-day operations of their canteens, undertaking such functions as product line modification, promotional policy implementation, inventory management and the supervision of employees, who are members of the American Federation of Government Employees. In addition to managing the retail store, canteen chiefs oversee other VCS services such as cafeteria, laundry, and florist services.

In its retail stores, the VCS sells merchandise which it divides into four broad

product categories: candy, tobacco, sundries, and clothing. All products sold in the stores, including such items as cameras and reading material, are classified within these four sales areas for accounting purposes. With rare exception, the VCS uses markup percentages that are lower than those used by private sector retailers. Procurement is similar to the system employed by the military PX commissaries which contract with manufacturers of recognized national brand-name goods to purchase bulk lots of given products. By the terms of a contract, known as a Purchase Order Pricing Agreement List (POPAL), the manufacturer ships the lot size desired of each product to individual canteens FOB destination. The VCS uses neither central warehousing nor computerized inventory management systems.

Canteen chiefs may arrange their stores at their own discretion; generally, they attempt to model their facilities on those found in the private sector. But many outlets face space constraints imposed by the VA medical center and managers cannot freely elect to relocate, expand, or remodel their facilities. Larger facilities, especially those with a high disabled patient population, make use of a ward cart which circles the appropriate hospital wards selling a sampling of the store's most popular items.

§ 3: Managerial Structures in the VCS

§ 3.1: Organizational Perspective & Managerial Evaluation

The central office plays a somewhat distant role in evaluating the individual canteens. The central office measures success by comparing the financial statements of individual canteens to the group as a whole. If a canteen's sales figures fall substantially below expectations, the central office contacts the appropriate field office with instructions to investigate, but it does not examine the matter directly. Additionally, two surveys are used to periodically evaluate canteens. The first one, which is administered by the field offices, consists of a series of management objectives and parameters designed to measure successful achievement of these objectives. These parameters include accountability, register control, sales revenue and employee courtesy. Each time a supervisory visit is paid to a particular canteen, this Management by Objectives survey is used to evaluate the canteen and its chief. The canteen is assigned a scaled rating by the field office, and it is these ratings that the central office reviews. The second survey is developed and administered by the VA to measure customer satisfaction. This survey is administered to patients only and evaluates employee/canteen chief courtesy, food quality, service levels, and availability of needed products. This survey is not used to evaluate individual managers but rather to obtain a composite score for the VCS as a component of the VA. According to the central office, the VCS received the highest ratings relative to other facets of the VA the last time the survey was administered.

One implication of this evaluation process is that the field office is largely responsible for canteen evaluations. The field officers are solely responsible for canteen performance data, from gathering it to evaluating it. The VCS has not been self-sustaining for the past three years; a number of canteens have not been visited in the past two years [Leyton, 1985; personal communication]; and some canteens with poor financial performance have received awards. Clearly, sound financial

performance is not being adequately encouraged by field level supervisors.

Another implication is that the central office has limited ability to review the performance of individual canteens. The central office only has access to financial statements and surveys results. But the field office controls implementation and evaluation. With the large concentration of power in the middle level of management, the central office is limited in its ability to evaluate the rest of the organization.

Lack of consistency and accountability may result in a confusion of objectives at the canteen level. While some managers cite financial criteria as the measure of their own success, others summarily deny that such criteria has importance in a service organization. Fifteen (15) of the twenty (20) managers interviewed cited financial motivations as more important when determining their canteen's policy while five (5) cited the service motivation as more important. Managers who attended the meeting agreed that service is the primary objective of the VCS, provided that the organization does not fall substantially into the red. Although variability of management philosophy should be expected in a healthy organization, it is striking that most managers believed themselves to be espousing the VCS corporate philosophy. This may indicate that the institutional message is somewhat unclear.

As researchers, we have found the issue of service versus sales to be a major area of confusion. The VCS, as a non-profit organization catering to a preferred customer, obviously cannot be driven by the same motivations as the private retailer. But as a retail organization that must fund its own operations, it must make pragmatic cost-benefit analyses to insure its own well being. A balanced and rational philosophy for establishing VCS objectives is a necessary component of any strategic planning. From this all other goals must evolve.

It is our evaluation that this presupposed dichotomy remains a dichotomy in the minds of the VCS management. Commenting on the criteria by which service and product viability are judged, one manager stated simply, "I discontinue products that

don't sell well," while another claimed that he "[preferred] not to discontinue services even if they don't break even." Local managers also differ on their evaluation of the importance of services with respect to their overall objectives. A service may "pay for itself" by yielding greater revenue for the VCS or greater utility for the veterans (hopefully it does both); but in those cases where only one criterion is satisfied, managers have varying opinions concerning which aspect determines success. One manager felt that "when [he] increases service levels by introducing new products, these products must show a profit or [else he] drops them." This contrasts sharply with the manager who said "my laundry and photo services lose money due to labor costs, but the patients use them so it's worth it."

The managers attending the conference agreed that customer praise constitutes a significant measure of success. Customer praise was considered more important, given the VCS mission, than favorable financial results. Some canteen chiefs were content with merely hearing no complaints from customers or superiors and believed that this absence of any negative feedback constituted a valid measure of success. In fact, one commented that "the best indicator of success is what you don't hear from customers." Unless financial problems get out of control, the managers believed that they warranted secondary attention to customer relations. As one of the conference participants said, "our job is not to make money but to serve the customer."

Recalling that the interviewed managers generally indicated that financial results rather than service level are the ultimate measure of success, it seems that managers' stated opinions may be subject to group effects. Given that the official mission of the VCS does not include making a profit, managers who do not meet their financial goals may cloak poor manipulation of the marketing mix in the excuse that they are emphasizing service levels as their mission demands. Furthermore, managers seem to have stretched the VCS mission statement in some cases to validate the idea that the act of making a profit somehow implies that service levels have been sacrificed.

Managers who have absorbed this attitude have, in effect, created a system of

measuring success which releases them from making the effort to constantly evaluate and fine tune marketing practices. If the profit motive is not emphasized then cost control, maximization of promotional effectiveness and monitoring consumer trends in the retail market may be overlooked. Even if VCS canteen chiefs are competent and have a strong profit motive, if their financial results are poor there is a temptation to use the organization's service mission to rationalize that aspect of their failure.

To strengthen the VCS performance evaluation system, the central office must decide, without ambiguity, what specifically constitutes canteen success. This framework should include financial criteria such as a target level of annual sales per customer, as well as ratings on non-financial criteria such as employee courtesy, skill, and product knowledge. The current checklist should be revised and made more specific so that subjectivity is removed where possible. For example, one question in the current administrative checklist asks if the canteen chief maintains a good working relationship with other services. However, there is no specific outline of what constitutes a good working relationship. There is no reference to other VCS documents so it seems that this rating is subjectively made. Objective sub-questions could be asked of managers referring to how often he speaks with other services, whether he has had any disagreements with these services in the past few months, etc.. This specific framework will clearly spell out the criteria that are important in a given category of evaluation and help to alleviate field office subjectivity.

The field offices will then be able to implement this framework and have the data available for review by the central office if needed. This type of system would give top management greater ability to evaluate the VCS personnel so that key promotions, demotions, and rewards may be reviewed. It may also obviate the possibility that some supervisors will assign "satisfactory" ratings, as some VCS parties have alleged, simply because the field offices wish to avoid the paperwork involved in assigning "unsatisfactory" and "outstanding" ratings.

Supervisory visits should be documented to ensure their consistency and

completion. The supervisor and canteen chief should both affix their signatures to the completed document, and a copy of the form should be sent to the central office. This procedure will allow the central office to ascertain that the visit was conducted and the inspection was properly carried out. A portion of this form could be devoted to recording any comments the canteen chief makes concerning marketing policy, incentives, communication channels, and personnel, among others. This practice could facilitate communication between the central office and field offices on important issues.

§ 3.2: Communication Issues

Central Office - Field Office Communication

The central office to field office channel of communication is characterized by a number of different perspectives on how middle management to headquarters communication should be conducted. The field offices do not frequently initiate communication with headquarters. One field officer stated that when the field personnel do contact the central office, they want to discuss only the immediate problems that they feel are important. He added that he does not think that regular (daily, weekly, monthly) communication is important. He just wants "... someone to turn to when a crisis erupts." However, field offices do not always communicate to the central office, even when important problems do exist. In one incident, a field officer had not visited a canteen in two years, yet this information was not communicated to the central office through conventional field office communication channels. These acts of omission and attitudes favoring only narrow, crisis-oriented communication make it clear that the field offices are not effectively communicating with the central office.

Headquarters also has to bear some of the responsibility of ineffective

communication. Much of the evidence that has been gathered points to the central office doing little more than making policy pronouncements. The central office develops policy and sends it down through the field offices for implementation. However, it appears that the central office has not developed and implemented concrete questions that it can ask to test the effectiveness of a given policy, such as product policy. For example, headquarters does not specifically solicit information on whether operational personnel (people concerned with the day to day operations of the VCS; i.e., field officers and canteen managers) believe that the current breadth of the product line is optimal. Instead, they wait for operational personnel to bring any information to them. This "wait for information" philosophy adopted by the central office can have serious consequences.

The gravest implication is that a communication structure exists where middle management is in control. A field officer readily admitted that he is "... in the best position in the VCS, because [he gets] the information going up and coming down." He agreed that middle management possesses vital information and stated that "if [he] were in the central office [he] would be a little worried about control." The field officer realizes that "knowledge is power" and the field offices have this power by virtue of their position within the organization.

Power through communication is not necessarily detrimental to the effectiveness of the organization if it is used correctly. The problem is that the field offices seem to be reluctant to use their power. The field officer interviewed said "what do I know about changing policy?", when asked about policy issues at the field office level.

Thus, the fundamental problem caused by this communication structure is that upper and middle management are not effectively addressing marketing policies. The field offices have openly stated that they do not want to, even in instances where they have the information to do so. These offices see themselves as "... short term day to day problem solvers, not policy makers." The central office cannot address marketing policies because it feels that it does not have the information it needs to do

so effectively.

Therefore, it is recommended that the central office carefully decide what information it feels is needed from the field offices. This information should be obtained to aid in the operation of the VCS and develop and augment policy. For example: if the central office wants to increase the breadth of the product line it might want to have field officers ask canteen managers for suggestions on what items to carry. This information could then be used to augment product policy. If the central office takes the time to carefully decide what it needs and knows where that information can be obtained it will be able to utilize communication channels more effectively. It will also make communication accountability possible. For example: if the office assigns a specific task to Mr. X of field office one and Mr. X does not gather the information necessary, the central office would know who to hold accountable.

Field Office - Canteen Communication

Communication between field offices and the canteens in their district is important because it involves direct interaction between the two operational sections of the VCS. Thus for communication between these two parties to be successful, information about current operations and problems must be transmitted to the field offices, because they contain the more experienced operations personnel.

Most canteen managers interviewed said that they were satisfied with the current communication between themselves and the field offices. Thirteen out of twenty managers surveyed and all of the managers at the conference felt that the field offices did a good job in serving the needs of individual canteens. These canteen chiefs described field office to canteen communication as "good", "helpful", and "time saving." They commented that the field offices "followed up on issues if [they] did not have an immediate answer." Three out of twenty managers surveyed admitted that they had not contacted the field offices on many occasions so they had no real

experience with the system. One manager out of twenty said that he had some bad experiences with certain individuals at his field office, but his communication problems vanished when he was assigned to a new officer. Finally, three out of twenty managers did not comment on the the canteen to field office level of communications.

Although approximately two-thirds of all managers surveyed felt that the current field office to canteen channels of communication are adequate, some definite problems with the channel are apparent. First, it seems that the canteens need more attention than they are currently receiving. As mentioned earlier, some canteens have not been visited by field office personnel in more than two years and many canteens are visited only annually. As a result of this lapse in face to face communication and evaluation, field officers do not know if a manager has merchandised his store correctly and put the right products in the right places. The officer also does not know how promotional displays are set up and if they are organized to be optimally effective in that store given square footage available as well as other constraints. Thus infrequent visits and the lack of supervision could lead to less than optimal marketing policy implementation, because products are promoted or merchandised ineffectively. This less than optimal policy will lead to less than optimal sales and service as consumers cannot find what they want or are unaware of special promotions.

The second problem involves reluctance of some managers to contact the field offices and discuss store difficulties. The manager phone survey revealed that three managers were aware that they had serious problems with their canteens, but felt that "the problems are our own." If a region has even a few canteen managers with this philosophy and the field office does not communicate with the canteens, serious consequences may result. Problems such as inadequate promotion and merchandising may become unmanageable and cause considerable damage to the sales, service, and/or reputation of the VCS. Furthermore, this method of manager problem

solving without any help defeats the purpose of the field offices because the offices are staffed specifically to aid the managers in the field.

For communication reasons, a system employing more frequent on-site visits should be utilized. Frequent on-site visits would help the field offices better understand the problems of the canteens. It would also help the canteen managers run a more successful canteen since problems would be addressed more rapidly than under the current system.

The benefits of more frequent face-to-face communication are two-fold. First, none of the problems mentioned above (inadequate promotion, merchandising problems, etc.) become unmanageable because they will be addressed by VCS personnel in a shorter period of time. Secondly, all managers will have an opportunity to develop an even greater rapport with their field officer by meeting with the supervisors face to face as they work together to make the canteen successful.

Central Office - Canteen Communication

Direct central office to canteen communication has been characterized by canteen chiefs as "non-existent" or "rare". The chiefs unanimously admitted that they utilized the monthly hotline conference call to exchange some information, but said that direct communication with headquarters outside of the hotline occurred extremely infrequently.

Eleven out of the twenty managers surveyed felt that the hotline provided a sufficient amount of direct communication between themselves and headquarters. Two out of the twenty managers surveyed believed that even the conference calls were too much because the hotline was "useless", "full of old information", and "too structured." Five out of twenty managers desired additional contact with the central offices to discuss new products and merchandising. The remaining two managers had no opinion that they wanted to publicly express.

It is evident that there is a definite disinclination to contact the central office between hotline calls. Reasons for this included the following: "the central office frowns on direct communication;" "the central office is too removed from day to day operations to understand my problems;" Headquarters "... is not supportive of the field offices and hence field operations." All of these reasons demonstrate the immense perceived distance between the canteen managers and the central office. The canteen managers made it clear that they consider themselves and the field offices to be day-to-day operationally oriented while the central office is perceived as not being operationally oriented.

This distance creates two major problems. First, it makes it difficult for the central office to directly obtain policy development and implementation information because the central office is viewed as "removed." Secondly, some canteen managers will not contact the central offices for merchandising or new product information because the canteen chiefs think that "the central office discourages communication."

Two possible solutions to the problems discussed in this section have been formulated. The first recommendation addresses the problem of gathering essential operational and non-operational (policy oriented) data. The field offices should be employed as information gatherers for the central office for three reasons. There is ample evidence that the field offices have built up a high level of trust with the canteens. The chiefs have repeatedly stated that they find their field officers to be "helpful" and "time saving." This will allow the field officers to more effectively investigate and inquire into the opinions and experiences of the managers. It will also make it clear that top management does care about field operations. Second, the field office method of information gathering will be more efficient than trying to gather data from one hundred and seventy two managers using one central office. Using the field offices will minimize logistical problems by separating the information gathering personnel into three distinct locations. Third, the field offices can be directly regulated when top management knows what information it wants and knows

where to obtain this information. This is true because accountability is possible and those officers who do not gather the necessary information can be held responsible.

The second recommendation will help headquarters change its perceived image with regard to communication. The central office should issue both verbal and written directives to all managers stating clearly that it wants managers to call with any merchandising or new product questions or comments that they may have. These directives should make it clear that the central office wants managers to call up and ask important questions and/or make comments. If calls become too frequent, the central office can instruct managers to make their calls on some appropriate schedule.

Formally opening communication channels between the central office and the field offices would be a good idea, because managers would feel that they have some input into the central office and can gain some worthwhile output. The benefits of this approach have been enumerated in many studies which show that managers are more likely to contribute valuable information and insight if they have some input into the decision making process.³ Obviously, headquarters does not have to accept everything that managers suggest but the central office will undoubtedly receive some worthwhile suggestions. This recommendation will also help to improve the morale of VCS managers by making it clear that top management values the opinions of the canteen manager.

Intra-Level Communications

So far this analysis has focused only on vertical communications between different levels of the management communication structure. However, there are also important horizontal communication channels. These channels include field office to field office communication and canteen to canteen communication. Our research indicates that a good deal of the communication in the VCS takes place laterally rather than vertically.

The field offices and the canteens both use this horizontal means of communication because they say that they trust the opinions of their colleagues. One field officer stated that all the field offices use this system about equally. He feels that the field offices utilize this system because it allows field personnel to draw on the operational expertise of other field personnel. The canteen managers at the conference unanimously agreed that they used canteen to canteen communication to draw upon the wealth of operational experience.

Drawing upon that experience is a positive aspect; however there are negative aspects to this form of horizontal communication. The field offices and/or the canteens may attempt to solve a major problem on their level without contacting the next level in the organization. Thus, that level would not be notified about an important issue. This issue would not present a problem if the organization could exist giving total autonomy to any given level of management, however total autonomy could be dangerous. The potential for damage to VCS sales, service and/or reputation is increased because problems may not be solved efficiently when only one level of management (and therefore a limited number of people) know about the problem.

Headquarters with the help of the field offices should examine the most common problems and decide based on financial or other criteria when a problem becomes important enough to alert other levels of management. For unusual issues, the central office can either allow a given level to use its own discretion or have the level contact the next level in the hierarchy. As time goes by the system can be modified to include the proper number of issues that do require the attention of headquarters. This recommendation will prove helpful because it will allow the field officers and canteen managers to continue to contact their colleagues. It will also make it clear that intra-level communication does not serve as a substitute for inter-level communication.

Veterans Canteen Service-Veterans Administration Communication

The final communication channels that will be focused on involve the interfacing of VCS personnel (canteen managers, field officers, and central office personnel) with Veterans Administration personnel and in particular hospital administrators. The purpose of this channel of communication is to develop a link with medical personnel to more effectively ascertain and serve the needs of veteran patients.

Almost all of the canteen managers at the conference stated that they "served on a number of hospital committees to effectively participate in the integration process." These managers believed that they could help the medical center by providing constructive input for various medical center problems, issues, and programs. The managers felt that this interaction aided them in their dealings with hospital administrators. However, the canteen chiefs were quick to point out they and the field offices resent "a hospital administrator with no retail experience attempting to address retail issues." This comment and others like it illustrate a fundamental conflict between the VCS operational arms and the Veterans Administration.

The central office of the VCS recognizes the conflict and feels that the canteens and field offices should listen more closely to the hospital administrator because "he best understands the needs of patients." The central office is aware of the hierarchy displayed in Appendix IIIA and wants to work very closely with the VA because the VCS is linked with the VA.

A problem exists with both approaches to dealing with the VA if the approaches are utilized to extremes. First, the canteen managers and field offices do not want to allow Veterans Administration Personnel to have input into the retail operation of the VCS stores. These managers cite the lack of retail experience of VA administrators; these administrators are however experienced in serving the needs of veteran patients. This experience could prove helpful in addressing the concerns of the patients, which is the stated mission of the VCS. Thus the hospital administrator should at least be

allowed to state how he feels and have his opinion seriously considered. If this is not done then the VCS is not effectively caring for patient needs because it is failing to consider the opinions of those who know patient needs. Secondly, the approach of the central office can be wrong if the VCS relies too heavily on the hospital administrators for input and knowledge. This approach would fail for the reason cited by the managers. The administrators have no retail experience. The VCS is linked with the VA, but the VCS is a specialized retail organization. This specialization means that in many instances VCS managers and officers will understand a retail situation that non-VCS personnel would not understand. Thus there are times when a manager is in a better position to make a decision than an administrator.

By incorporating the best of both approaches an optimal solution should be reached. The VCS managers (and possibly field officers) should meet with hospital administrators whenever the VCS or the VA personnel have a significant issue that they feel needs to be discussed. Managers and field officers should be instructed that they are expected to carefully listen to and consider VA suggestions.

If the issue is non-controversial, such as adding a new product that the VCS manager thinks would sell anyway, then the suggestion can be acted on. Therefore, assuming that the product does not conflict with VCS policies, no further discussion on that issue would be necessary. However, if a controversial suggestion (for example, banning the sale of a popular product) is made by a VA administrator, the manager of the canteen should not have to comply immediately with this suggestion. Instead, the upper levels of the VCS and the VA should be alerted and consulted for the resolution of the problem. This recommendation will benefit VCS-VA communication because it will help to clear the channels between canteen managers and hospital administrators as well as provide for the resolution of conflict between the managers and administrators.

§ 3.3: Managerial Incentives

Managers interviewed by phone and those participating in the manager conference mentioned the following categories of incentives: personal, career, financial, and non-financial. Of these categories, career incentives were most frequently mentioned. Ideally, a manager who has done well at a small or medium sized canteen will eventually be promoted to a larger canteen and receive higher salary, benefits, and prestige accordingly. Similarly, managers of the largest canteens expect to be promoted to the position of field supervisor, and so on up through the ranks. However, phone survey and manager conference data indicate that at the moment, upward mobility has been stalled. Four phone survey respondents explicitly cited what they termed a "dead end" in upward mobility, as did one manager at the conference. One particularly disillusioned manager remarked, "once my goal was to manage a large canteen and eventually become a field supervisor. These goals have gone by the wayside."

If a canteen manager earns an "outstanding canteen" award he receives merit pay. In addition to this bonus he may also earn higher prestige in the organization. Another non-financial incentive which may improve a canteen chief's likelihood of promotion is being asked to serve on various hospital committees that serve as interfaces between the VCS and other branches of the VA. Four managers indicated that the personal challenge of fulfilling the VCS mission constituted an incentive to top job performance. One manager noted that fear of surprise supervisory visits had at one time constituted an incentive to fulfill responsibilities conscientiously, but that supervisors no longer made these unannounced visits. Four managers expressed outright dissatisfaction with the current incentives in the VCS system. These managers made such remarks as, "Incentives are few and far between," "Promotion is the only incentive," "Incentives are ineffective," "Nothing keeps me motivated," "Incentives? Are there any?" "There are no incentives, just personal satisfaction."

Two managers commented that they believe the canteen rating system operated in such a way as to serve as a disincentive rather than a motivating force. Of the three ratings that are applied (unsatisfactory, satisfactory and outstanding) only the satisfactory rating does not have to be documented. In the opinion of these two managers, supervisors are prone to assigning "satisfactory" ratings simply to avoid paperwork associated with justifying their choice. One canteen chief pointed out a further disincentive: no allowance is made for outlets located in metropolitan areas. Outlets located in major metropolitan areas experience a much higher incidence of theft. Such theft is a prime component of inventory shrinkage which in turn results in less than optimal financial results.

No formal incentives other than promotion up into a higher level field position or into the central office exist for field officers. The majority of the division heads in the central office have been promoted from in-house.

There is a general feeling among managers that the incentive system of the VCS is inadequate with respect to opportunities for promotion. Managers feel "dead-ended" and do not regard other incentives such as the "outstanding canteen" award and accompanying merit pay, and personal satisfaction as compensatory motivators.

At present there are three field directors, three assistant field directors and twelve field supervisors. The 92 canteen chiefs who currently manage canteens with sales of over \$500,000 annually presumably are among those eligible for promotions. Although some managers may be content to remain where they are, younger and more aggressive managers may feel "dead-ended". This is particularly true of younger managers who have early on become chiefs of large canteens but who fear that when a supervisory position does open up, it will be filled by a more senior canteen chief. Further, it is likely that chiefs in the larger canteens will not leave their positions as frequently as will managers of smaller canteens, for the former have a deeper vested interest in remaining with the VCS than the latter.

Managers who are not properly motivated may fulfill only the basic obligations of their positions.⁴ They make little effort to consider alternatives to the way they currently manipulate the marketing mix and solve operational problems such as poor employee performance or sub-optimal store layout. As a result of the inherent weaknesses in the VCS's incentive system, many managers have been lulled into complacency or frustrated into apathy.

The powerful motivating force that drives the private sector (ie: profit) is explicitly absent from the mission statement. Instead the statement contains a service motive combined with a dictate to break even. All managers interviewed realized that serving America's hospitalized veterans is the goal of the VCS, and no manager questioned objected in any fashion to this goal. However, judging from the inadequacy of current incentive systems, the VCS policy presumes that managers who are charged with providing service will be sufficiently motivated simply by realizing they have served. This is clearly faulty logic. Just as retail store managers in the private sector are motivated as much by salary and promotion incentives as by the satisfaction of having done a good job, so do VCS canteen chiefs require tangible monetary and career incentives to perform their functions with excellence.

If the VCS incentive system inadequately fulfills its function, the organization will breed apathy and job dissatisfaction. Managers may initially seek change or attempt to refine their marketing policy; however, if they feel that incentives are lacking or that the organization is not receptive to change, they might become apathetic. The consequences of stifling or stone-walling managers rather than evoking and channeling their abilities constructively are two-fold. First, apathetic managers, who struggle only to maintain their position, and thus maintain the status quo, have no incentive to initiate changes or strive for a better organization.⁵ Secondly, better personnel may, in the long term, leave the organization. In fact, two managers mentioned that they were in the process of seeking jobs outside the VCS.

Trends in the arena of American health care also underscore the need for an

incentive system that elicits manager commitment. For example, the introduction of DRGs (Diagnostic Related Groups) to the health care field has resulted in significantly shorter hospital stays for most patients, and therefore, in declining hospital residency. This will ultimately result in declining sales volume if current policies remain unchanged. Hospitals in certain areas of the country, particularly the northeast, have experienced additional declines in occupancy due to significant migration to the sun belt and southern states. One field officer suggested that the best way to compensate for the decline in sales volume is to gradually reduce VCS employment since "too many people are currently employed by the VCS as it is."

However, incentives systems which encourage managers to maximize their bottom lines without violating VCS regulations or sacrificing service levels will prove in the long run to be a more constructive solution to the problem of shrinking revenue. It is incentive systems that will encourage managers to cut costs, crack down on theft and shoplifting, carefully monitor product success, maximize use of promotional techniques, and pay attention to product and product line trends. In contrast, reducing personnel alleviates financial strains for a time but does nothing to encourage managers to address weaknesses in the marketing mix and the larger organizational structure.

To bolster its inadequate incentive system the VCS should introduce either a bonus system, a profit sharing system, or a modified combination thereof. A bonus system follows logically from the current central office practice of establishing target sales figures and allowed variances from these targets for each canteen. Managers who exceed the target sales figure (and hence the allowed variance as well) will receive a percentage of the amount by which the target is exceeded. For instance, should Manager X be given a target of \$400 per potential customer per year and he grosses \$450 per potential customer per year, he or she might receive a percentage of that variance in the form of a performance bonus.

A profit sharing system could also be instituted whereby all profits are put into a

common pool (or several common regional pools). This pool could be used to finance projects which benefit all VCS employees (employee party/picnic fund, subsidized theater or movie tickets, YMCA memberships, etc.).

The manager of the year award could also be improved and used as an effective incentive. The award should be given to one or two managers annually and should be based on specific financial and non-financial criteria gathered by the supervisory visits. The decision for the award should be made jointly by the central and field offices. And decisions should be based on the same criteria that determine which canteens receive "outstanding" ratings.

Monetary awards should also be granted for innovative ideas formally proposed and actually instituted by canteen chiefs and field officers. Currently, VCS regulations allow for awards but no manager we spoke with knew of anyone who had received one. Therefore it is recommended that innovative ideas which are instituted and which are deemed successes should definitely not "possibly"⁶ yield further financial compensation to the originator of the idea. Even an unimplemented idea could yield some, albeit lower, compensation. Criteria for judging success should be well defined, well communicated and consistent with VCS goals.

§ 4: Product Policy

In any retailing organization, the product mix is the driving force in the success of the organization. All other factors may (and, we believe, should) be viewed as essentially a part of the "augmented product". By "augmented product" we mean the core product and all of the product benefits associated with it.

A consumer is motivated to purchase based on perceived product benefits. The same physical product may not be the same augmented product. Assuming a given physical product, the product at a lower price is preferred over the more costly one. The product available today is preferred over one available later. The product that is conveniently located is preferred over one that requires an effort on the part of the consumer. The product that is associated with some positive image or some additional benefit is preferred over the basic product alone. These may seem like platitudes; yet, the retailer must realize that he sells an entire package of product related benefits. The store itself is part of the product and must be sold to its customers.

Peter Drucker (1973) has identified the two basic functions of the firm as *marketing* and *innovation*. Product policy can be viewed as the meeting ground of the two and as a focal point for the operations of the firm which assure the well being of its stakeholders.⁷ Any management that loses sight of its marketing objectives or stifles innovation only hastens its own decline.

The size and mission of the VCS necessitate a well planned strategic product policy with which local managers can successfully market their operation while still allowing them the flexibility to be innovative. The VCS may have at its disposal all of the tools necessary for such a policy; however, it seems to lack a useful guiding philosophy. Mission statements oriented towards subjective goals leave managers unable to evaluate their policies in a rational and consistent manner.

The present VCS policy, as best as we can discern, revolves around the BML and the POPAL. The BML is supposedly designed to provide canteen managers with an

enumeration of a product mix which should insure the financial and service success of the canteen. According to VCS aggregate sales data, the mandatory BML list accounts for about 70% of total sales volume (~ 90% when the optional BML is also included).

The BML is heavily oriented towards branded products. In each product category, the national market leaders are required to be sold in all canteens. The rationale for such a policy is two-fold. First, the VCS assumes that its customer is highly brand sensitive. Throughout the post-WWII era and through the sixties, the consumer market was highly brand conscious. Veterans of this period make up the bulk of the VA hospital residents. Therefore, it seems imprudent to offer generic or store brands at the canteens. Second, the VCS perceives that its mission includes aiding the hospital staff in providing a therapeutic environment for patients. By offering a product mix similar to that "found in the outside world" the VCS feels that it contributes to that goal.

Since the BML has a wide variety of products and brands and a large amount of optional offerings, one may consider it to promote flexibility while still maintaining consistency. In addition, managers may request changes in their BML at any point if they feel that a change would benefit their canteen. Canteen managers are able to request any item delineated by the POPAL (or PAL) that the VCS has negotiated with each of its vendors. The POPAL lists the minimum order required by the manufacturer for a given product, its cost, its selling price, its packaging and an agreement to deliver merchandise FOB-destination. In addition, it lists the vendor and gives a description of the merchandise.

This system of procurement and inventory management seems ideal for the VCS. It relieves the organization of the costs and responsibilities of maintaining warehouses or personnel to trace lost merchandise. It also allows the manager to tailor his product mix at will to the needs of his hospital community. The benefit of having government negotiated contracts is apparent in the low prices that the VCS can secure even on low volume items. The VCS product policy should be quite successful; but

our research indicates that product policy at the VCS is less ideal than it may seem.

Although some managers (based upon the conference and phone interviews) indicated that the BML and POPAL was an efficient and sufficient combination for determining product line, this opinion was highly variable. Managers interviewed were asked to approximate the percentage of their sales volume attributable to the mandatory items on the BML. The average for the twenty respondents was about 65% (roughly in line with the central office prediction); yet, the range was from 25% to 98%. The group of managers attending the conference agreed that the mandatory BML accounted for about 30% of their sales volume. Although, one may suspect that there might have been some degree of "groupthink" with respect to that low figure, one can hardly suppose that the BML is consistently serving managers well, nor should one rely upon it as the major determinant of product mix. Also, very few (only two of those interviewed) indicated that they changed their BML to accommodate the needs of their hospital community.

Managers who were interviewed and those who attended the conference reported three major methods that they used to decide upon what optional products to carry: trial and error; their perception of local taste; indicated customer preference. In no case did a manager report using systematic methods to analyze sales data. Four of twenty managers interviewed by phone indicated that they employed trial and error using the product's sales volume as the measure of its success. Nine out of twenty managers based their product choices largely upon their perception of their customer's taste, again judging success by sales volume. The third method, to evaluate customer requests, was employed by seven of twenty managers. Maintaining a customer "want list" or a suggestion box was the only form of market research employed to help determine product policy. The managers at the conference also indicated that they used these methods to choose products for their stores.

The results of the sales data and the Canteen Master List analyses indicate many conclusions which have a profound impact on product policy [Appendices IIA-D].

Realizing the limitations of the data set, we tentatively conclude that the strong economic performers are separated from the weak ones by managerial rather than environmental variables.*

Using sales (in dollars) per customer as the measure of success, favorable financial results are highly correlated with total sales volume but not with total number of customers. Thus the computed measure of success varies not with the environmental variable (hospital population), but with the manager influenced variable (total sales). Two groups were delineated based on sales per capita. For the top and bottom quintiles (henceforth referred to as group 1 and group 2, respectively) differences were examined via Student t-tests.

The results of the financial analysis reflect a general tendency. Where a variable is expected to be correlated with ambitious management, it is also correlated with high sales volume per capita. Variables which seem to be correlated with managerial apathy are correlated with low sales volume. Variables which should be uninfluenced by managerial actions have no relationship with sales volume per capita.

For example, the mean square footage of groups 1 and 2 were not significantly different [$\mu_1=992$, $\mu_2=1118$; $\alpha=0.341$]. Both economically successful and economically unsuccessful canteens span a broad range of sizes. Some of the interviewed managers indicated that this was not true. Complaints about space constraints and inability to adequately display products were mentioned as a hindrance to success in at least four interviews. These complaints should not be

* The statistical analyses in this section come from t-tests and Pearson correlations performed on the sample of 126 canteens for which there was complete information. T-tests indicate whether two means (μ) are significantly different from each other. Pearson correlation coefficients indicate the strength of a relationship between two variables. The coefficient (β) represents the slope of a regression line fitted to the data. In all cases, the significance level (α) indicates the degree to which the observed relationship is due to random factors. If α is high, the indicated result is unreliable. Results are considered significant (i.e. reliable) if $\alpha < 0.05$. In this analysis, t-tests and Pearson correlations are used to test the same hypotheses; however, the t-tests compare the two extremes and look at how they are different while the Pearson correlation coefficients measure the relationship for the entire sample.

discounted. If a manager cannot display his products effectively he may find his economic potential more limited. However, the data shows that these situations are the exception rather than the rule. One cannot claim that the smaller, more confined canteen has less of a chance to be successful than the larger one. In fact, the canteens with lower sales per capita actually have more square footage than the more successful canteens. Yet, once again, we must realize that all group analysis is an aggregate conclusion and does not replace the individualized attention that each specific situation may warrant.

Another inference about product marketing may be made from the statistical analysis. Canteens which more aggressively market their products have greater overall success. There was a significant difference in the relative percentage of the four product categories for groups 1 and 2. The percentage of all sales attributable to candy [$\mu_1=14.5\%$, $\mu_2=17.1\%$] was significantly higher in group 2 [$\alpha=0.025$] while the percentage of sales from clothing [$\mu_1=33.6\%$, $\mu_2=28.5\%$] was significantly higher in group 1 [$\alpha=0.006$]. One may assume that any canteen would be able to sell a certain amount of candy and tobacco since these are low cost and low involvement products that are routinely purchased by the hospital community. However, higher margin and higher involvement products such as clothing (and presumably some of the items included in the "sundries" category) would require some greater "marketing effort" on the part of the canteen chief.

Given that the mean annual sales volume was substantially and significantly higher for group 1 than for group 2 [$\mu_1=\$873480$, $\mu_2=\$479800$; $\alpha=0.001$] and that groups 1 and 2 do not differ with respect to the size of the hospital community [$\mu_1=1597$, $\mu_2=1724$; $\alpha=0.60$], it was concluded that sales per capita varies with those factors that the manager can influence more than with the canteen's *a priori* constraints. Further, it may be easily shown that group 1 canteens, while selling a smaller percentage of candy and tobacco relative to the total product mix, actually sell

a much greater dollar volume of these product categories. This is true both on an absolute and per capita basis.

The Pearson correlations, which analyze the entire group rather than just compare the extremes, support the above conclusions. Total sales volume [$\beta=0.386$; $\alpha=0.000$] and percentage of product sales attributable to clothing [$\beta=0.308$; $\alpha=0.000$] are shown to be positively correlated with sales volume per capita while percentage of product sales attributable to candy [$\beta=-0.223$; $\alpha=0.006$] and percentage of product sales attributable to tobacco [$\beta=-0.171$; $\alpha=0.028$] are shown to be negatively correlated with sales volume per capita. Clearly there are differences between the canteens that relate to sales volume per capita. Although the variables analyzed by no means offer a complete explanation of these differences, they do provide significant results. Further analysis to test the indicated hypotheses would be well advised.

Under the current product policy system, managers seem to have varying interpretations of what is VCS policy. Although some see the BML as "merely a guide," others use it quite extensively to stock their canteen. The BML and POPAL do not seem to encourage a great deal of manager initiative in product policy issues. Since it has been suggested that managerial "marketing effort" is the distinguishing characteristic between the successful and unsuccessful canteen, the present product policy may not be the best for the VCS.

Managers should be encouraged to take an active role in the determination of the product mix of their canteen. Although the present procurement system may have great advantages, managers should look beyond their present limitations and actively contribute to the choice of their stores' product mix. Current information on patients and customers should be made available to all VCS management in order to assist them in strategic marketing. In all cases, managers must be motivated to actively market their store as well as their products. By viewing the VCS operation as a coherent whole consisting of both service and business functions, the managers can

clearly evaluate programs for their merit and applicability. The central office must first establish its mission and goals, then managers may take steps to accomplish their objectives such as market research, sales analysis and promotion.

§ 5: Promotion

For promotion to be successful, three elements must be present. First, appropriate goals must be set. Second, skillful communication between buyers and sellers must exist. Third, a suitable method of evaluation must be used.⁸ The VCS seems to have not established appropriate goals, employed optimal communication with customers, or developed an effective process of promotion evaluation. .

One canteen manager referred to promotion as "a special event designed to build customer traffic and sell more merchandise than usual." This seems to typify the attitude of the VCS towards promotional activity. Promotion is an integral part of any retail marketing program. Relegating it to the role of a "special event" seems to limit the potential power that a well planned routine promotional effort could bring to the marketing plan of the VCS.

When managers at our conference were questioned about successful promotion, they unanimously cited the annual birthday sale. "The theme of this sale varies annually, and is emphasized by flyers, store decorations, employee costumes, and special foods. The sale not only increases canteen revenues, but also raises patients' spirits and store awareness levels." This appears to be the only major effort to promote the VCS organization to the hospital community.

The only other promotional events mentioned were the "dog days" or "lemon days" sales. The canteens use these special sales to dispose of merchandise that is not selling. The VCS wants to sell this "aged merchandise which has been in stock for too long a time and needs special clearance attention." Managers believe that these sales are successful because customers do go to the sales sections and merchandise does move. However one must consider the possibility that if attention were paid to promotion throughout the selling process, there would be less of a need to have special promotions geared specifically towards leftover merchandise. If the VCS allows special promotions to substitute for (rather than augment) a comprehensive

and routine promotion plan, it may be limiting its sales potential and forfeiting its ability to improve its image.

This lack of a clear cut promotion policy goal affects buyer-seller communication, because target marketing is not utilized. Instead, managers disclosed that they targeted their advertising and sales promotion to everyone in the hospital. The managers, by their own admission, do not take into account the type of hospital (domiciliary, nursing care units, psychiatric and general medical), the type of patient (new vs. established, or younger vs. older) or other demographic factors. As a result of this indiscriminate advertising, potentially different market segments with different characteristics and purchasing behavior are being addressed in the same manner. This may lead to less than optimal results with each promotional effort.

Buyer-seller communication is also limited by the methods used by the VCS. The VCS has chosen to rely on only advertising and sales promotion to achieve its promotional goals. Advertising is strictly limited to in-hospital distribution and signs are utilized to promote both product, price and the store itself. In our opinion, these signs are rather dull and unimaginative and may not be drawing attention. If VCS signs do not draw attention to themselves, buyer-seller communication cannot be optimized and potential sales may be lost.

Sales promotion is the second promotional method used by the VCS. This type of promotion is achieved by utilizing a Red Tag Program and tie-in coupons. The Red Tag program promotes mainly on price and utilizes red tags placed near those items which are temporarily discounted. The red tags are similar to promotional materials that might be used by a retailer in the private sector. The VCS also uses its own coupons to draw customers from one area of the VCS to another. For example, if a customer buys two shirts he may receive a free cup of coffee at the cafeteria; this creates a tie-in between the two branches of the VCS.

Managers at the conference stated that they felt that both the Red Tag program and the tie-in coupons were successful. They cited the quick movement of

merchandise and the redemption rate of coupons as evidence to support their claim. Assuming that the managers' account of these programs is accurate, these appear to be constructive activities and should be continued.

Yet, in general, it appears that the VCS does not have a clearly defined and communicated promotion evaluation procedure to assess the costs and benefits of promotional tools. The lack of such a procedure has severe implications because it becomes difficult to evaluate a given promotion and its contribution to the VCS.

The VCS must develop and implement a well defined promotional structure into store policy (Appendix IIIC). This structure should include methods to define promotional objectives as specifically as possible (ie: increase snack sales by 10%), determine the tasks needed to do this (ie: 15% off VCS coupon), perform the task, and evaluate the results to see if the objective was obtained.⁹ If the objective was met, the VCS should consider raising the goal. If the objective was not met then the goal might be lowered, a different promotional method used (ie: advertising instead of a coupon), or a more effective implementation of the current method (ie: more effective distribution of the coupon).

Within the framework mentioned above, the VCS should begin to employ day to day utilization of promotion and segmentation of the market. Continual day to day promotion should be utilized so that the VCS is always trying to generate excitement and sales in the hospital environment. Promotion should, whenever possible, be tailored to effectively exploit the available segments. For example, if the VCS desires to increase new patient awareness and interest, it should carefully study the characteristics of new patients and learn the most effective way to reach them. The store might provide more detailed promotional material in new patient packets. This information could explain not only the mission and characteristics of the VCS but also contain specific coupon specials available to first time visitors. Thus, advertising and sales promotion could in many instances be targeted to the segment that the VCS wants to reach. Service to that segment could be increased, resulting in increased sales.

New advertising methods comparable to those utilized by outside retailers should be considered. Attractive signs with bright colors and updated, catchy slogans promoting both product and price should be placed in canteen windows, on bulletin boards throughout the hospital and in the stores themselves. If VCS prices are considerably lower on certain items than those at local stores, comparative advertising will promote products. For example, if Brand X hairspray is \$1.00 at the VCS and \$1.50 at a nearby retailer, a window sign posting the canteen's price could read "Compare at \$1.50." Comparative eye catching advertising will presumably draw "bargain hunting" consumers into the store for that product and possibly encourage the sale of other products once these patrons are in the store.

It is particularly important that the VCS present a corporate image just as would any private sector retail organization. Large signs visible through canteen windows stating the VCS mission to serve veterans and employees to their satisfaction will present such an image.

Revision of sales promotion could also be utilized with an updated version of VCS in-house retail store coupons. Coupons would be accessible to patients, through store flyers or actual coupon handouts to store patrons. These coupons would encourage repeat visits to the VCS store which will result in additional sales as patrons would probably purchase other products not on sale.

A free membership card is another possible sales promotion tool. First time customers could be handed the cards which could be punched with each \$5.00 purchase, for instance. When the customer has made a certain number of such purchases, the card might be redeemed for a "free gift" such as a book or a pair of socks. This card could motivate customers to purchase more than they would otherwise in pursuit of "free gifts."

Prior to the implementation of any promotional themes, cost effectiveness must be determined. The most appropriate method for evaluating effectiveness of promotional techniques depends on the application. However, one possible method of

evaluation might be to run a promotional campaign in half of the outlets (randomly chosen) but not in the rest; then compare sales of a promoted item in both groups before, during, and after promotional campaign.¹⁰ This approach would allow the VCS to carefully examine promotional activities to see their impact on total sales or sales by individual product and decide the optimal level of promotion. Only through appropriate promotional testing can the VCS maximize its return on any promotional campaign. The VCS could gain much by developing a complete promotional plan that satisfies the three aforementioned criteria of success.

Chapter 4: Summary of Recommendations

The major problems that the VCS face today relate back to a fundamental business problem which it has inadequately addressed. The corporate mission of the VCS is not well coordinated with the organization's business environment nor with its policy implementation. Lack of a guiding philosophy (that works) breeds problems and conflicts in all areas of management and marketing policy. The evidence presented in this study is by no means conclusive; but certain trends are apparent. Throughout this time of transition, the VCS must thoroughly and pragmatically evaluate its policies. Many of the current policies are valid and useful; but, they must be integrated into a coherent whole and utilized to their maximum advantage. Without a broad analysis, change in specific areas may be ineffectual.

Most of the specific recommendations in this report pertain to three basic deficiencies in the VCS: lack of complete information about the business environment; lack of a clear and well communicated business plan; lack of motivation to perform more than the most basic business functions throughout the organization. Once the VCS has addressed these issues, it must direct its attention towards understanding its market and implementing its business plan effectively.

In order to gather and synthesize information about the business environment, we recommend that the VCS:

- Expand the role of the central office in the evaluation of managers by maintaining records on canteen chief evaluations and instituting a verification system to insure that managers are being evaluated appropriately.
- Assign the field offices (or some middle layer of management) the task of gathering and analyzing information on all internal topics for which the

central office currently has inadequate information.

- Institute a market research program to gather basic demographic and buyer behavior information (perhaps implement the customer survey provided in Appendix IA).
- Maintain personnel to evaluate market information and trends that have specific implications for the retailing industry.

In order to define and communicate its business plan, the VCS should:

- Evaluate its current policies objectively and without fear of change (perhaps an outside consultant would be appropriate).
- Strive to eliminate the inter-level distrust in the organization through freer communication and inter-level consultation.
- Clarify its mission to include unambiguous and objective goals
- Create tangible incentives for managers to follow the VCS mission and goals
- Promote this message throughout the hospital community

In order to better motivate managers, the VCS should:

- Deemphasize subjective criteria in all types of personnel evaluations.
- Increase the number of regular supervisory visits.

- Create a bonus system that is linked to sales success and other objective criteria.
- Institute a system of profit sharing for canteen chiefs and field offices.
- Link tangible and unambiguous monetary and career benefits to performance awards.
- Award managers for initiating innovative ideas.

Marketing the VCS successfully requires a more detailed study of the marketplace. The VCS currently has very limited demographic and buyer behavior information. This type of information must be gathered and analyzed if an intelligent marketing plan to be developed. Towards this goal we recommend that the VCS:

- Access hospital or VA records for demographic information and acquire current, accurate and complete information about their customers.
- Study the impact of the employee segment on the VCS market (our research indicates that employees represent about two thirds of all customers) and target product and promotional campaigns to this segment.
- Survey customers to test the effectiveness of all promotional campaigns, product introductions and shifts in marketing policy.

The VCS must think of itself as a retail organization, first and foremost. Efficient marketing and economic success do not correspond to poor service. Rather, a well tailored retail organization that generates positive cash flow may serve the veteran

patient better by being able to provide a higher level and broader range of services. Serving markets other than patients, we feel, is not in contradiction to the VCS mission. A market driven organization only devotes resources where it believes it will have higher returns. If a non-patient segment is served, resulting in a stronger economic performance, than all customers, employees and other stakeholders in the VCS are well served.

End Notes

¹ "Welcome to the VCS." (Veterans Canteen Service Internal Document).

² "Merchandising Division." (Veterans Canteen Service Internal Document).

³ Leon Reinharth and Mahmoud Wahba, "Expectancy Theory as a Predictor of Work Motivation, Effort Expenditure and Job Performance," Academy of Management Journal, Vol. 18, No. 3, September 1975 pg. 521.

⁴ Ibid., pg. 523.

⁵ Ibid., pg. 521.

⁶ "Welcome to the VCS" (Veterans Canteen Service Internal Document).

⁷ Yoram J. Wind. Product Policy: Concepts, Methods and Strategy. (Reading, Massachusetts: Addison-Wesley Publishing Company, 1982), pg.11.

⁸ Thomas S. Robertson and others. Consumer Behavior. (Scott, Foresman and Company, 1984) pp. 37 & 43.

⁹ Gary L. Lilien and Philip Kotler, Marketing Decision Making: A Model Approach (New York: Harper and Row, 1983), pg. 491.

¹⁰ Ibid., pg. 502.

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"Merchandising Division." (Veterans Canteen Service, internal document)

"Welcome to The VCS." (Veterans Canteen Service, internal document)

Appendix I: Research Methodologies**A. Customer Survey**

The Survey
Instructions for Administering the Survey
Questions for Managers

B. Manager Conference

Agenda
Manager Conference Outline

C. Manager Telephone Survey

The Survey
Transcripts of Selected Interviews

Appendix IA: Customer Survey

The following appendix contains a customer survey designed to obtain information that will allow the VCS to correlate demographic variables with consumer behavior. The in-store written survey should be administered by a sales clerk from every VCS store to a random sample of that store's customers.

The survey was pretested at the Philadelphia canteen. As a result of the pretest some minor alterations were made and the instruction sheet was rewritten. A new section, *Questions for Managers* was added. Only the updated survey is included here. The small sample size of the pretest (N=37) precludes any statistical analysis of the results, which are not included here.

INSTRUCTIONS FOR THE VCS CUSTOMER SURVEY

Enclosed are twenty (20) customer surveys five (5) replacement copies and the "Questions for Managers" form. Please administer this survey on the first business day following receipt in the following manner:

1. Please answer the first section of the "Questions for Managers" form.
2. Provide a box labelled "Survey Return" and several pens or pencils next to your cash register to facilitate survey completion and return.
3. Divide the twenty (20) surveys so that an equal number are distributed every two (2) hours throughout the business day. For instance, if your store hours are from 8:00 AM to 4:00 PM, five (5) surveys would be distributed during each two (2) hour interval.

THE SALES CLERK SHOULD BE INSTRUCTED TO PERFORM STEPS 4-7

4. The sales clerk should be instructed to ask each and every patron to fill out a survey (regardless of whether the patron is a patient, employee or visitor) until the allotted surveys have been completed.
5. If any customer objects to completing the survey for any reason, simply give it to the next patron, but keep a running tally of how many people refused to answer the survey [if possible, record whether such a person is a patient, employee or visitor].
6. If, by the end of any two (2) hour time interval, all of the allotted surveys (for that time interval) have not been completed, you may add them to those allotted for the next time interval. For example, if you had allotted five (5) surveys to each time interval and only four (4) were completed, then six (6) surveys would be available for the next time interval.
7. If, by the end of the business day, twenty (20) surveys have not been completed, please repeat steps 2-6 on the following day until twenty (20) surveys have been completed.
8. Complete the remainder of the "Questions for Managers" form.
9. Return twenty (20) completed surveys, all five (5) damaged or unused surveys and the "Questions for Managers" form in the envelope provided.

THANK YOU FOR YOUR PROMPT ATTENTION AND COOPERATION.

Veterans Canteen Service Customer Survey

Please check the most appropriate box.

1. What is the current time?

- | | |
|---|---------------------------------------|
| ☐ 8:00-9:59 AM | ☐ 2:00-3:59 PM |
| ☐ 10:00-11:59 PM | ☐ 4:00-5:59 PM |
| ☐ 12:00-1:59 PM | ☐ Other |

2. Which category best describes you? (Please check only one)

- ☐ VA hospital patient ☐ VA hospital employee ☐ VA hospital visitor

3. What is your sex?

- ☐ Male ☐ Female

4. Which products have you purchased at the VCS in the past month?

(Check all that apply)

- | | | |
|---|-------------------------------------|---|
| ☐ Tobacco Products | ☐ Toiletries | ☐ Electronics/Watches |
| ☐ Candy | ☐ Clothing | ☐ Accessories (hosiery, etc) |
| ☐ Snacks | ☐ Stationary | ☐ Other |

How often do you visit the VCS?

- | | |
|---|---|
| ☐ More than once per day | ☐ Once or twice per week |
| ☐ Once per day | ☐ 2-3 times per month |
| ☐ 3-4 times per week | ☐ Once a month or less |

When you visit the VCS, do you make a purchase:

- ☐ All of the time ☐ More than half the time ☐ Less than half of the time

On the average, how many dollars per week do you spend at the VCS?

- | | | |
|--|---|---|
| ☐ Less than \$5 | ☐ \$10 - \$14.99 | ☐ \$20 - \$24.99 |
| ☐ \$5 - \$9.99 | ☐ \$15 - \$19.99 | ☐ \$25 or more |

Compared to what you are used to, VCS prices are:

- ☐ Much higher ☐ Higher ☐ About the same ☐ Lower ☐ Much lower

If you are a patient, please answer the following:

How long have you been a patient at this VA hospital?

- | | |
|---|--|
| ☐ Less than 1 week | ☐ 1 month but less than 2 months |
| ☐ One week but less than 2 weeks | ☐ 2 months but less than 6 months |
| ☐ 2 weeks but less than 1 month | ☐ More than 6 months |

What is your age?

- | | | | | |
|-------------------------------------|--------------------------------|--------------------------------|--------------------------------|------------------------------|
| ☐ 30 or less | ☐ 41-50 | ☐ 56-60 | ☐ 66-70 | ☐ 80+ |
| ☐ 31-40 | ☐ 51-55 | ☐ 61-65 | ☐ 71-80 | |

Thank you for your cooperation.

QUESTIONS FOR MANAGERS

Please answer the following before you administer the VCS Customer Survey

Approximately what proportion of your customers are patients?

- ☐ less than 30%
- ☐ 30% to 44%
- ☐ 45% to 59%
- ☐ 60% to 74%
- ☐ 75% or more

What are your regular store hours? _____ to _____.

Please answer the following upon completion of the VCS Customer Survey

How many patrons refused to complete the survey? _____

If this information is available, how many of the above were:

patients _____
employees _____
visitors _____

Were all twenty (20) surveys completed on the same day?

☐ yes ☐ no

Please comment on any problems or unique circumstances encountered while administering the survey which you feel would help us interpret the results.

Appendix IB: Manager Conference

The following section contains the manager conference agenda and outline. Both were used for our structured discussion with nine VCS canteen managers at our Philadelphia conference. The purpose of the conference was to provide a forum for discovering the local interpretation of national policies and the characteristics of present VCS communication channels which may effect the success of any strategic planning.

Agenda

- 10:00 AM - 10:45 AM Introduction/Orientation
- 10:45 AM - 12:00 PM Managerial Environment Session
- 12:00 AM - 12:45 PM Lunch
- 12:45 AM - 2:15 PM Product Policy Session
- 2:15 AM - 3:15 PM Promotion Policy Session
- 3:15 AM - 4:00 PM Open Conversation/Overview

Topic I - Managerial Environment

Concepts:

A. Organizational Mission

- What is the VCS's business?
- Who does the VCS serve?
- Are there any conflicts between the mission and the everyday operation of the store?

B. Managerial Goals

- What is your store's measure of success?
- sales volume?
- service level?
- other criteria?

C. Managerial Authority/Autonomy

- Who should set the policy?
- The central VCS office in Washington?
- The regional field office?
- Each canteen chief?
- Someone else?

What level of autonomy is desirable/most efficient and effective?

- With regard to pricing policy?
- With regard to product policy?
- With regard to promotion policy?

Related Issues:

A. Incentives for Personnel

- Financial
- Career/ Motivation to Excel
- Personal/Status Within the Organization

B. Environment

- Employee Relations
- Physical Environment
- Personal Philosophy of VCS Managers

Topic II.- Product Policy

A. In practice how do managers choose products?

- Do they petition for changes in the mandatory list of products?
- How do they decide optional products?
 - Trial and Error?
 - Suggestions from Customers?
 - Manager Instinct?
 - Other?
- How is product success measured?
 - By High Sales?
 - Mentioned by Vocal Group of Customers?
 - Other?
- Where do ideas for new product offerings come from?
 - From the Washington Office?
 - From the Regional Field Offices?
 - From Patients?
 - From Employees?

B. Specific Focus:

- Does Product Policy in Practice Equal the BML?
- Does the BML Heavily Guide What You Do or Do You Use It as a Tool and Have Your Own Augmented System?

C. What Product Limitations are Imposed on VCS Managers

- by the VA?
- by the VCS Central Office in Washington?
- by VCS Regional-Field Office?
- by Other Sources?

Topic III. - Promotion Policy

A. Primary Focus of Promotional Work

- Do You Focus on Promotion of the Product?
- Do You Focus on Promotion of the Price?
- Do You Focus on Promotion of Service?
- Do you Focus on Promotion of the Overall VCS Image?

B. Primary Goals of Promotional Work

- To Increase Sales Volume?
- To Create a VCS Image in the Minds of Consumers?
- To Encourage the Sale of Specific Products?
- To Increase Profits?

C. Which Vehicles are Used?

- How are these Chosen?
- How is the Success of your Promotion Measured?

D. What Promotion Limitations are Imposed on VCS Managers

- By the VA?
- By the VCS Central Office in Washington?
- By the Field-Regional Office?
- By Other Sources?

Appendix IC: Manager Telephone Interviews

This section contains the manager telephone survey developed by our group. The survey was administered via telephone to twenty (20) managers throughout the country and served to test the validity of information gathered during the manager conference.

Appendix IC also contains transcripts of actual telephone interviews. The names of managers have been deleted to preserve their anonymity.

Appendix IC: Manager Telephone Interview

Objectives

- To clarify managers priorities in the trade-between profits and customer service level in serving patients versus serving employees.
 - To understand what managers' goals are and how they are motivated by the organization.
 - To typify to whom and for what the resources of the VCS are devoted.
 - To understand what role the BML plays in VCS product policy.
 - To understand the nature of the VCS communication process.
-

Questions:

1. Approximately, what percentage of your customers are employees? Patients?
 2. How do you determine your product policy?
 3. What percentage of sales is from mandatory BML items?
 4. Do you carry any product categories not listed on the BML? What are they? Why do you carry them?
 5. How do you evaluate whether the cost of a service is worth the service it provides?
 6. What do incentives motivate you to do?
 7. Please describe your opinion of communication between yourself and the field offices? (frequency, methods, topics discussed, evaluation of effectiveness, etc...)
- Yourself and the central office? (frequency, methods, topics discussed, evaluation of effectiveness, etc...)

Manager Interview # 1

1. 55% of customers are employees.
15% of customers are patients.
30% of customers are visitors.

Product Policy Issues

2. BML used to determine products carried. Also regional preference is used to determine merchandise carried.
3. 75-80% of sales is from mandatory BML items
4. Yes, I carry merchandise not on the BML for example, natural candy, specific tobacco brands, specific clothing styles and specific dental flosses.
Carry the merchandise due to regional preference or due to specific recommendations of the medical facility staff.

Organizational perspective

5. Some services are requested by the administration. There's a certain amount of good will involved with the services, but the extra effort should show a profit or should be discontinued.
6. No comment
7. Communication with the field officer depends on the supervisor. Now it's terrific. It's a sound working relationship, but with a bad field officer it's communication only when necessary.
Communication from the canteen to the central office is non-existent. The central office doesn't support the field.
Conference calls are useless; Provides old information that's already out on the grapevine.

Manager Interview # 2

1. 50% of the customers are employees.
50% of the customers are patients.

Product Policy Issues

2. Use the BML to determine products carried. Also use trial and error and gut feeling to determine merchandise carried.
3. 95 of sales is from mandatory BML items.
4. Yes I carry merchandise not on the BML, such as cookies and snack items.
Carry the items due to local preference and we shop in other stores and notice products carried there.

Organizational Perspective

5. Services carried vary from hospital to hospital. At times a service is run at a loss as the VCS and the hospital agree it's an intricate part of the medical facility. Prefer to have the service than to discontinue it. It's up to the canteen officer and hospital administrator to decide if they want the service.
6. Incentives are few and far between. It's necessary to be a self motivator due to the infrequent communication with the supervisor.
7. No comment; Won't bite on that one.

Manager Interview # 3

1. 40% of customers are employees.
60% of customers are patients and their families.

Product Policy Issues

2. Products come from the BML and choice is from the POPAL.
3. 70% of sales is from mandatory Bml items.
4. This manager carries no other product lines those listed on the BML.

Organizational Perspective

5. Services include: retail outlet, cafeteria, and watch repair.
6. There are no incentives and no where to go. Reached a dead end. It won't do any good anymore to try to move up by working harder because if the field offices break-up, the supervisors will get the highest level jobs available. Once his goal's were to increase the size of his canteen and to become a supervisor but these have "gone by the wayside."
7. He communicates with the field office occassionaly. They call him if they see a problem. He's here to take care of problems, so if he needs to turn to them, he shouldn't be there.
He occassionaly speaks with Washington.

Manager Interview # 4

- 1. 20% of customers are employees.
- 80% of customers are patients.

Product Policy Issues

- 2. BML determines products carried.
- 3. 98% of sales is from mandatory BML items.
- 4. Yes, carry cakes from a local vendor. Try a sample (small amount of the good) if the item does well I increase the number.

Organizational Perspective

- 5. Services are dictated by the hospital director. Services are carried unless they are continually out of balance.
- 6. No incentives, just personal satisfaction. No real monetary rewards and it's unusual to receive them.
- 7. Communication with your supervisor is good because he wants to know what's happening.
Not much communication with the central office. It's too far removed but will talk to you.

Manager Interview # 5

1. 75% of customers are employees.
25% of customers are patients.

Product Policy Issues

2. BML determines products carried. As new items are listed on the POPAL they try it and look at the response. Local demand also determines products.
3. 65% of sales is from mandatory BML items.
4. Doesn't really pay attention to the BML that much as the national market doesn't fit local needs.

Organizational Perspective

5. Difficult to get a vendor to provide the service for a small volume so it's difficult to provide the services. No vendors want it so it's dropped. It's a disposable society.
6. Not consistent; Inequality in the system as a person may not have a theft rate so maintaining inventory shrinkage is easier. This is different in large metropolitan areas. The standard should adjust to the situation and the location.
7. There's a problem working with two bosses; the medical director and the Field Officer. Where does alligence belong?
Communication is up in the air. There are too many canteens for the Field Office to Handle (18 Canteens to 1 Field Office) . Not an adequate staff. There's not much need to talk to the Central Office.

Appendix II: Data Analysis

- A. VCS Canteen Sales Per Capita
- B. Descriptive Statistics
- C. Comparison Between the Canteens with the Highest & Lowest Sales Per Capita (as described by t-tests)
- D. Correlation of Sales Per Capita with Other Canteen Variables (as described by Pearson Correlations)

Appendix IIA: VCS Canteen Sales Per Capita[†]

Top 30 Sales Per Capita

#	Location	Sales per Capita
455	San Juan, PR	1036
535	Chicago, IL	682
637	Ashville, NC	657
632	Northport, LI, NY	636
575	Grand Junction, CO	627
581	Huntington, WV	615
695	Milwaukee, WI	612
670	Syracuse, NY	601
558	Durham, NC	594
534	Charleston, SC	570
664	San Diego, CA	551
500	Albany, NY	547
578	Boise, ID	531
662	San Francisco, CA	526
541	Cleveland, OH	521
540	Clarksburg, WV	515
725	St. Albans, NY	512
530	Los Angeles, CA	511
688	Washington, DC	500
565	Fayetteville, NC	498
608	Manchester, NH	480
641	Perry Point, MD	480
514	Bath, NY	474
570	Fresno, CA	470
553	Allen Park, MI	468
567	Fort Lyon, CO	466
580	Houston, TX	465
405	White River Jct., NH	462
600	Long Beach, CA	453
604	Lyons, NJ	450

Bottom 30 Sales Per Capita

#	Location	Sales per Capita
648	Portland, OR	179
590	Hampton, VA	241
678	Tucson, AZ	257
636	Omaha, NE	260
610	Merion, IN	262
506	Ann Arbor, MI	263
516	Bay Pines, FL	263
460	Wilmington, DE	268
663	Seattle, WA	269
642	Philadelphia, PA	277
660	Salt Lake City, UT	284
598	Little Rock, AR	285
622	Murfreesboro, TN	286
502	Alexandra, LA	290
550	Danville, IL	291
546	Miami, FL	292
519	Big Spring, TX	293
583	Indianapolis, IN	300
595	Lebanon, PA	303
539	Cincinnati, OH	305
437	Fargo, ND	308
442	Cheyenne, WY	309
665	Sepulveda, CA	311
574	Grand Island, NE	323
584	Iowa City, IA	325
532	Canandaigua, NY	326
659	Salisbury, NC	327
683	Vancouver, WA	328
552	Dayton, OH	329
676	Tomah, WI	331

[†] This information is extremely limited and can only be used for purposes of group comparison. Only 127 of the 172 VCS outlets are included in this analysis due to lack of complete information. Sales per capita was computed as (TOTAL SALES [from 8/84-7/85] ÷ POTENTIAL CUSTOMERS [employees + patients]). Information concerning POTENTIAL CUSTOMERS came from the Canteen Master List provided by the Finance Center in St. Louis, MO. This information is approximately two years old. Additionally, the statistics were generated by the VA in Washington DC and may slightly vary from the true figures. The TOTAL SALES statistic is accurate for the most current fiscal year. Therefore any error in sales per capita results from inaccuracy in the number of customers at the facility.

NOTE: The POTENTIAL CUSTOMERS statistic used in this report is not to be confused with the POTENTIAL CUSTOMERS statistic on the Canteen Master List. This statistic is, rather, the summation of EMPLOYEES and CUSTOMERS as documented on the Canteen Master List.

Appendix IIB - Descriptive Statistics

Variable: TOTAL SALES

Mean:	654.944	Std. Error:	35.196	Valid Observations:	126
Variance:	156079.797	Kurtosis:	1.799	Maximum:	99.000
Std. Dev.:	395.069	Skewness:	1.187	Minimum:	2124.000

Variable: POTENTIAL CUSTOMERS

Mean:	1650.452	Std. Error:	77.396	Valid Observations:	126
Variance:	754749.834	Kurtosis:	-0.318	Maximum:	4015.000
Std. Dev.:	868.763	Skewness:	0.517	Minimum:	268.000

Variable: SALES PER CAPITA

Mean:	397.896	Std. Error:	8.441	Valid Observations:	126
Variance:	8976.742	Kurtosis:	0.614	Maximum:	681.733
Std. Dev.:	94.746	Skewness:	0.754	Minimum:	179.153

Variable: PATIENTS

Mean:	29.037	Std. Error:	0.918	Valid Observations:	126
Variance:	106.205	Kurtosis:	1.391	Maximum:	69.194
Std. Dev.:	10.306	Skewness:	0.716	Minimum:	3.509

Variable: EMPLOYEES

Mean:	70.963	Std. Error:	0.918	Valid Observations:	126
Variance:	106.205	Kurtosis:	1.391	Maximum:	96.491
Std. Dev.:	10.306	Skewness:	-0.716	Minimum:	30.806

Explanation of Variables

TOTAL SALES - Total annual sales volume (in \$1000) for each canteen [from August 1984 to July 1985]

POTENTIAL CUSTOMERS - Size of hospital community (employees + patients)

SALES PER CAPITA - Total annual sales volume (in dollars) per person
(TOTAL SALES+POTENTIAL CUSTOMERS)

PATIENTS - Percentage of hospital community who are patients

EMPLOYEES - Percentage of hospital community who are employees

Appendix IIC: Comparison Between the Canteens with the Highest & Lowest Sales Per Capita (as described by t-tests)

VARIABLE	Number of cases	Mean	Standard Deviation	Standard Error	F value	2-tail prob.	T value	Degrees of freedom	2-tail prob.
TOTAL SALES - AUG '84 to JUL '85 (in \$1000)									
Group 1*	25	873.480	500.042	100.048	4.89	0.000	3.59	48	0.001
Group 2*	25	479.800	226.225	45.245					
TOBACCO SALES (% of TOTAL SALES)									
Group 1	25	17.363	7.005	1.401	1.73	0.186	-0.81	48	0.424
Group 2	25	19.231	9.216	1.843					
CANDY SALES (% of TOTAL SALES)									
Group 1	25	14.473	4.419	0.884	1.52	0.315	-2.31	48	0.025
Group 2	25	17.105	3.590	0.718					
CLOTHING SALES (% of TOTAL SALES)									
Group 1	25	33.596	6.176	1.235	1.12	0.776	2.85	48	0.006
Group 2	25	28.464	6.550	1.310					
SUNDRY SALES (% of TOTAL SALES)									
Group 1	25	34.568	6.128	1.226	1.03	0.940	-0.37	48	0.716
Group 2	25	35.206	6.223	1.245					
POTENTIAL CUSTOMERS (Total number of employees and patients listed on the Canteen Master List)									
Group 1	25	1597.48	874.671	174.934	1.21	0.640	-0.53	48	0.595
Group 2	25	1723.80	794.267	158.853					
EMPLOYEES (% of POTENTIAL CUSTOMERS)									
Group 1	25	74.735	10.799	2.160	1.71	0.196	-0.07	48	0.944
Group 2	25	74.927	8.259	0.718					
PATIENTS (% of POTENTIAL CUSTOMERS)									
Group 1	25	25.265	10.799	2.160	1.71	0.196	0.07	48	0.944
Group 2	25	25.074	8.259	0.718					
SIZE OF CANTEEN (actual square feet listed on the Canteen Master List)									
Group 1	25	991.495	410.403	82.081	1.49	0.341	-0.97	47	0.341
Group 2	24	1117.658	500.517	102.168					

- * Group 1 represents the top 25 canteens in TOTAL SALES+POTENTIAL CUSTOMERS (excluding San Juan, PR);
Group 2 represents the bottom 25 canteens in TOTAL SALES+POTENTIAL CUSTOMERS.

**Appendix IID: Correlation of Sales Per Capita with Other
Canteen Variables (as described by Pearson Correlations)**

All Pearson Correlation Coefficients are computed with Sales per Capita as the dependent variable.

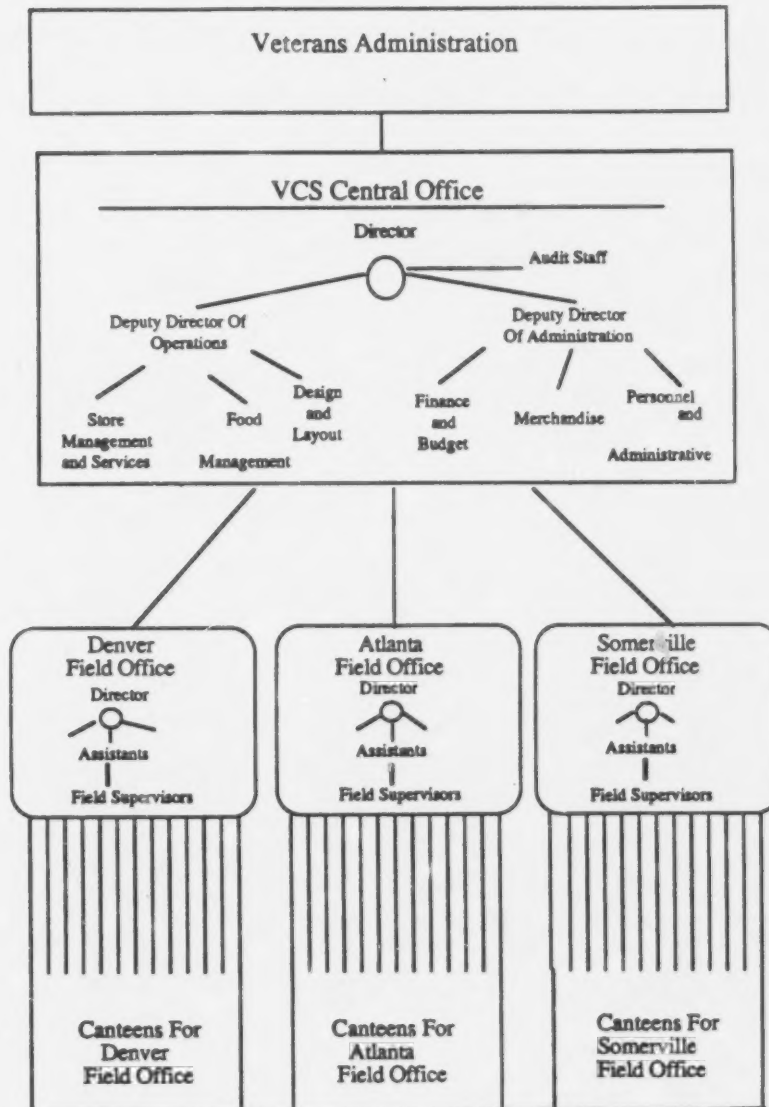
<u>Independent Variable</u>	<u>Coefficient (β)</u>	<u>Cases (N)</u>	<u>Significance (α)</u>
TOTAL SALES	0.3860	126	0.000
TOBACCO SALES	-0.1710	126	0.028
CANDY SALES	-0.2230	126	0.006
CLOTHING SALES	-0.3075	126	0.000
SUNDRY SALES	0.0822	126	0.180
POTENTIAL CUSTOMERS	-0.0216	126	0.405
EMPLOYEES	0.0744	126	0.204
PATIENTS	-0.0744	126	0.204
SIZE OF CANTEEN	-0.0361	124	0.345

Appendix III: Conceptual Models

- A. The Current Organizational Structure of the VCS
- B. The Current Communication Channels Involving the VCS
- C. An Objective and Task Method for Promotion Policy Planning and Implementation

Appendix III A

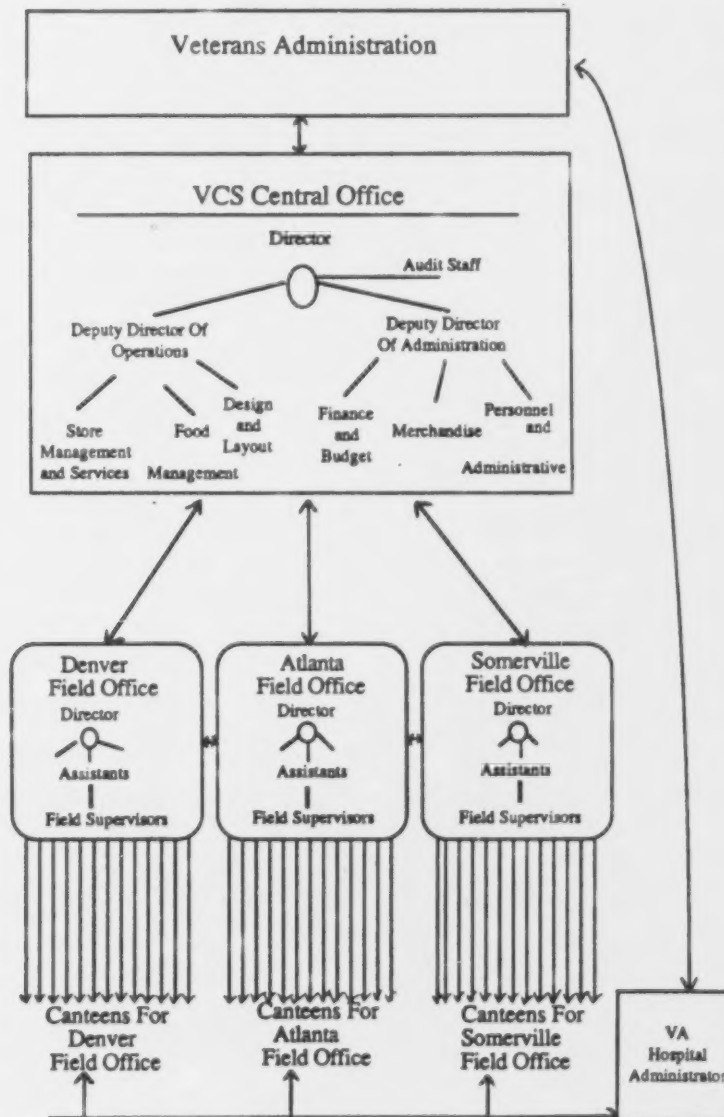
The Current Organizational Structure of the VCS



Source: Merchandising Division (Veterans Canteen Service Internal Document).

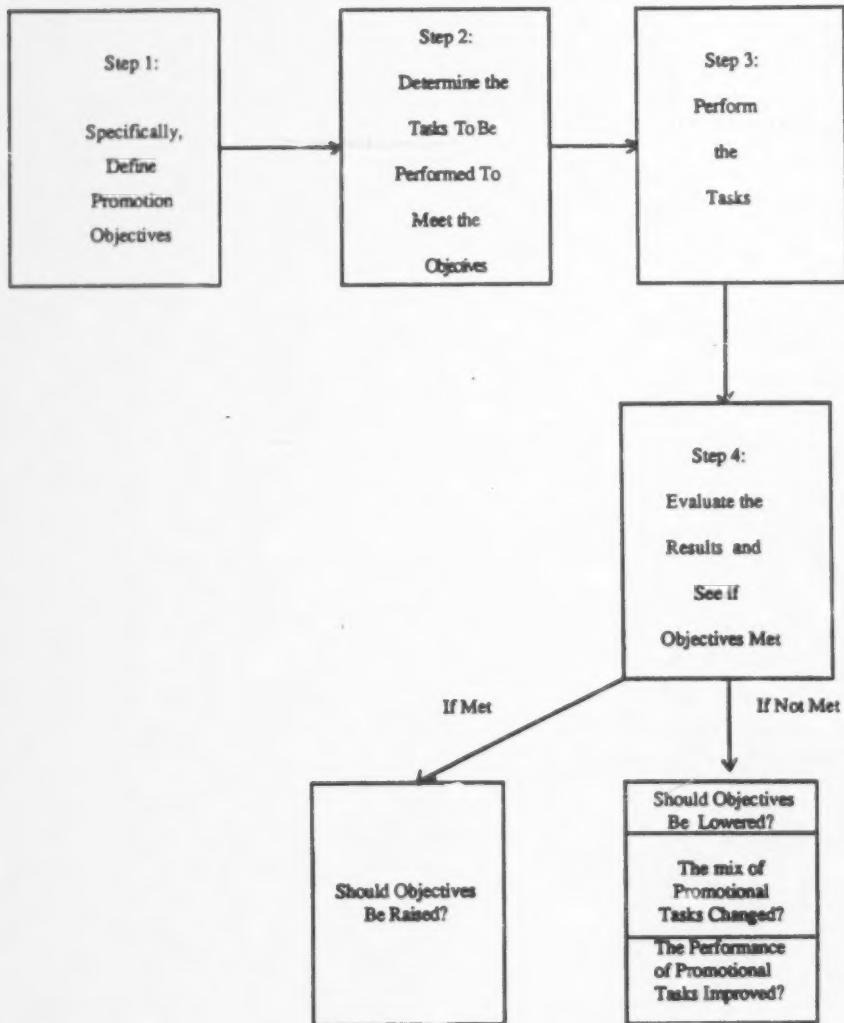
Appendix III B

Current Communication Involving the VCS



Source: Manager Conference and Phone Survey, Field Office Phone Survey and Central Office Visit

Appendix III C
An Objective and
Task Method For Promotion
Policy Planning and Implementation
(A Suggested VCS Approach)



Source: Marketing Decision Making: A Model Approach, pg. 491

THE AMERICAN LOGISTICS ASSOCIATION

Testimony Presented To
Committee On Veteran Affairs

U. S. House of Representatives

Regarding the Veterans Canteen Service

September 24, 1986

Presented By: A. Kolbet Schrichte
Executive Vice President

My name is Kolbet Schrichte; I serve as the Executive Vice President of the American Logistics Association. On behalf of the Association's Board of Directors and membership, thank you for this opportunity to summarize for you some of the information and insights we have presented for the record.

The American Logistics Association is a voluntary trade association which represents manufacturers, distributors and brokers of goods to the Veterans Canteen Service as well as to the military resale and troop subsistence systems. Our membership is as diverse and representative as the items that appear on grocery or retail store shelves. The majority of our corporate members also are major suppliers to civilian food service, grocery and retail outlets.

We hope our understanding of the structure, operations and organization of the private sector can be helpful to the Subcommittee as you analyze the function and effectiveness of the Veteran Canteen Service. We also hope you will call on us in any way in which we can assist the Committee in carrying out its oversight responsibility.

I would like to describe some key elements of private industry, some of the unique characteristics of the Veterans Canteen Service and how these canteens are supplied. Next, I'd like to outline some results of canteens were contracted out or turned over to the private sector, including how that affect the care

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given to our hospitalized veterans; and some fiscal and legal implications.

The American Logistics Association has steadfastly voiced its deep concern over the issue of contracting out under the guidelines of A-76.

We believe that the A-76 guidelines themselves support our concern. It is significant that A-76 guidelines recognized the special nature of certain governmental functions, though they are not specifically named, and observes in paragraph 4(b) that, "Certain functions are inherently governmental in nature, being so intimately related to the public interest as to mandate performance by Federal employees". This key statement reinforces the ALA's basic premise. Certain services to military personnel and veterans (in this case the Veterans Canteen Service) have statutorily acquired a special nature and are intimately related to the public interest.

Canteens stabilize the quality of life regardless of the geographic location, size, or circumstance. The same pricing structure is enjoyed by all canteens regardless of size. It is, however, the help of the volume of the large metropolitan canteens that permits this nationwide equalization of low prices.

The superlative record of productivity of the canteen systems is probably unmatched in any other comparable system.

Perhaps a private contractor could provide the service to a large hospital in a profitable manner, but it is highly unlikely that there would be incentive or profit justification for providing the same quality of service to the many remote hospitals. Although the current focus is only on food operations, one must realistically project that other functions will follow.

The office of Management and Budget guidelines on cost savings are illusory. It would be a rather simple task for a test contractor to show a five to ten or even 15 percent savings to the patron over the short period of one or two years. A Contractor would account for his low profits in these years as an investment towards greater future profits. That's elementary business practice. In the out years 1987, '88 and '89, there would be an inevitable rise in costs. That is, there would be a reduction in cost effectiveness.

There are some legal impediments to canteen privatization. Let me mention just three of them. In each, it is necessary to make the distinction between food services such as the dietary food served patients for subsistence and food service that is discretionary and purchased by canteen patrons.

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State sales taxes, where imposed, apply to sales made within a state; some states where canteens are operated impose a tax on both wholesale and retail sales. A use tax generally applies to the use of personal property in a business, regardless of who owns the property. The Veterans Administration does not pay sales taxes on purchases from canteens. The Supreme court has held that payment of use taxes by the government are barred by the Supremacy Clause of the United States Constitution. Sales taxes on canteen purchases are also barred by the Buck Act (4 U.S.C. o 105(a), 107(a) (b)). We Believe that contracting out will result in the imposition of both use and sales tax on canteen operations, as to purchases by the operator of the canteen, the operator's use of government-owned personal property, and sales. Obviously, this tax will ultimately be paid by the canteen patrons, thus reducing these canteen benefits.

The Robinson-Patman Act prohibits price discrimination in purchases of "like grade and quality" commodities where the effect of the discrimination lessens competition. There is a rebuttable presumption that any such discrimination lessens competition. Generally, the government is immune from the Act's effect. Because the United States is immune, a person who sells to the government also is immune. Therefore, manufacturers can -- and do -- offer discriminatory price reductions to the

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canteens without fear of the Act. However, the Act's inapplicability to canteens will end if the contracting-out plan is adopted, because the government would likely no longer be a party to the transactions. Contracting out will result in higher costs to the VA patron as this important element of the canteens' reduced costs comes to an end.

Among other things, the Sherman Act prohibits contracts and combinations in restraint of trade. The United States cannot be sued for violating the Act's prohibitions; generally, private parties that do nothing more than accept exclusive government contracts also are immune. It is possible, however, that contracting out canteens on an exclusive basis might, in some cases, result in violations of the Sherman Act by both the manufacturer who sells to the canteen and the private party operating such canteens. Of course, any activity by the private party operating the canteen in restraint of trade -- including access to the canteen itself -- could result in Sherman Act violations. Keeping in mind, as we must, that we are talking about a criminal statute, some study of the Sherman Act problem should be undertaken -- with Department of Justice and Federal Trade Commission input -- before contracting-out is pursued.

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Finally, I'd like to suggest that the canteen service is one which delivers a benefit to the veterans that is "the best deal in town". The facts are clear. Here you have a benefit which can serve a great number of people that returns money to the U.S. Treasury. Canteens also fulfill the need to honor commitments made to veterans at no cost to the non-veteran taxpayer. Since the canteen is there, the more customers who use the canteen, the greater the productivity. Meanwhile, Industry, represented by this Association will continue to work toward its goal...to provide the best possible price to all our military personnel, including verterans.

Thank you very much for this opportunity to testify. Please let us know if we can be of further assistance. I'd be happy to answer any questions.

I respectfully request that the record on these hearings be held open for ten days in order that the American Logistics Association may clarify any points raised by other witnesses.

STATEMENT OF
MR. CLYDE C. COOK
BEFORE THE SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATION
COMMITTEE ON VETERANS AFFAIRS
HOUSE OF REPRESENTATIVES

SEPTEMBER 24, 1986

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before the Subcommittee to discuss issues confronting the Veterans Canteen Service.

During the 10 years prior to my retirement 4 months ago, I was the Director, Office of Procurement and Supply, Veterans Administration, and worked closely with the Veterans Canteen Service. Additionally, in 1974 and 1975 I was the Director, Veterans Canteen Service. Since then I have maintained official and informal contacts with members of Veterans Canteen Service.

Mr. Chairman, Veterans Canteen Service is a troubled organization. Its future is uncertain. It is confronted with possible contracting out of all or some of its food service. It is rife with rumors of major change and reorganization. The Service has been operated without a permanent director for nearly a year and a half. Key employees who have talked with me feel

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that channels of communication are inadequate, that insufficient information is disseminated to its management and consequently to all its employees.

One of the most pressing issues concerns the application of OMB Circular A-76 to the canteen food service. Veterans Canteen Service employees are concerned that insufficient attention is being given to the rationale for the present structure and the possible impact on the entire program. Veterans Canteen Service was established to provide items of personal need, recreation and food items, including such things as are sold at snack bars and cafeterias. During the late 1960's its mission was expanded to providing food service to visitors and employees.

Veterans Canteen Service pricing policy is to maintain uniform prices nationwide so that veterans in remote rural areas will pay no more than their fellow veterans in metropolitan areas. Such a practice is common in the private sector as well. My concern is that if the Veterans Canteen Service contracts out only a part of its food service, contractors will no doubt be interested only in those locations which are now profitable, leaving the remaining canteens to seek subsidies from appropriations or be confronted with inordinate prices which would ultimately bring about the demise of the Service. The result will be confusion and chaos which motivated General Omar Bradley to seek and obtain the legislation which established Veterans Canteen Service. To sever significant parts of the

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program, and no doubt only the profitable ones, will damage or even destroy the Service. This will work a hardship not only on hospitalized veterans, but also on employees and visitors. The loser will be the veteran. There would be no benefit to the taxpayer since the program is financially self-sufficient.

None of us are against improved operations or greater economy. We must, however, consider the total impact of possible consideration of contracting out.

I guess I am saying "all or none."

Now might be the appropriate time to reconsider if contracting out should be applied to Veterans Canteen Service. Veterans Canteen Service as a nonappropriate fund activity, like similar activities of the Department of Defense, is unique in Government procurement. Several years ago, as a follow-on to implementation of the recommendations of the Commission on Government Procurement, the OMB established a task force to determine the relationship of nonappropriated fund activities to Federal procurement statutes and policies and regulations. The task force concluded that these activities were not subject to these controls unless specifically required by statute. This seems to me to say that any effort to contract out Veterans Canteen Service food service is strictly an agency management decision and not compliance with OMB Circular A-76.

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There are other considerations which must go along with such a decision. The Randolph-Shepherd Act places some priorities on the operation of vending machines, food stands and even cafeteria food service. During my service at Veterans Canteen Service, we obtained agreement that the Randolph-Shepherd Act did not apply to us in the operation of our program. If VA considers turning over the operation of food service to private vendors, does our exemption still apply?

If VA is to go ahead with its study of contracting out, it must consider all consequences.

Mr. Chairman, I can offer no information regarding the reorganization of Veterans Canteen Service. It was developed some time ago and current management officials at the Department of Medicine and Surgery no doubt require some time to familiarize themselves with proposals made prior to their current appointment. I was not consulted by those who drafted the proposal and have only hearsay familiarity. The only official data I have is the letter dated September 3, 1986, to your Committee from the Veterans Administration.

The assignment of a permanent director would cure many of the ills troubling the Service. Persons who are only acting in management positions do not enjoy the same influence and authority as full-time managers. A permanent director should be appointed without further delay.

Mr. Chairman, this concludes my statement. I hope it is of some value to the Subcommittee in its oversight of the Veterans Canteen Service.

Statement of Walter A. Nelson
Former Director
Veterans Canteen Service

Mr. Chairman and members of the subcommittee, I have accepted your invitation to appear before you today to offer testimony which, I hope, will be helpful in fulfilling your oversight responsibilities of the Veterans Canteen Service. My Veterans Administration career started in March 1946 when I became Assistant Chief of the Canteen Division in the Boston Branch Office. At that time, General Omar Bradley proposed changing the canteen-style service at VA hospitals from concessionaire operations to a government-controlled operation similar to the Army PXs and Navy Ships' Stores. We all know that General Bradley prevailed and I am proud that my entire VA career was with the Veterans Canteen Service, the last four of which I spent as its Director.

When I retired in 1982 I left with a feeling of confidence and good spirits about the Veterans Canteen Service. But as any politician knows, a lot can happen in four years. And, personally, I don't believe what's been happening to the VCS is for the better.

Your office provided me with a transcript of the hearing held before this subcommittee September 18, 1985. I read it carefully. It is a thorough and comprehensive review of the current situation.

It is my belief that title 38, the legislative history, testimony before hearings, independent studies and the past performance of the VCS, emphatically show that the Veterans Canteen Service is an INDEPENDENT unit within the Veterans Administration and that the Veterans Canteen Service has EXCLUSIVE CONTROL over all its activities.

The law states that the VCS has exclusive control over its activities including sales, procurement and supply, finance, including disbursement and personnel management. In spite of many obstacles in running a business within the government, the VCS has operated effectively, efficiently and economically over the past 40 years. Even so, there are those who wish to change it drastically.

The question should be, "Can VCS be made better by changing the law and management philosophy." Instead, it appears the answer has come before the question and it has been, "Change the management philosophy and we'll take care of the law later."

In the early days of the VCS, the VA hired Booz, Allen & Hamilton management consultants to make a comprehensive study of the VA's programs and organizations. The firm's report stated that the VCS organization met the provisions of the law for control of financial and merchandising aspects and for establishment of operating responsibility and accountability.

Booz, Allen stated VCS should be preserved with no interference from above, not only because the law specifically forbids it, but because the requisite knowledge to operate a commercial business competently was not provided for in the VA outside of the Veterans Canteen Service. The VCS was recognized as a professional retail and food organization run by professionals in the field.

In May 1982, the VA's Chief Medical Director testified that the VCS offered high-quality uniform service and pricing throughout the VA medical system to the nation's veterans. The General Accounting office in its periodic audits of the VCS has repeatedly found no exceptions. Other reviews, both from within and outside the Agency, reached the same basic conclusion: The VCS successfully accomplishes its mission in an efficient, effective and economical manner.

Moreover, the CMD testified that the VA and the medical care program in particular had benefited in many ways from the VCS's existence. The VCS reimburses the medical care appropriation for its occupancy expenses and its equipment. The CMD also reported that the VCS had taken a number of important reorganizational steps to reduce costs and improve service.

The CMD might have added that VCS personnel are an integral part of the medical centers where they serve -- they are VA people who truly believe in serving America's veterans.

So what IS all this talk about contracting out and reorganization? You've heard testimony that if the service is turned over to a contractor, whose goal is to make a profit, the VA will lose a vital link in its medical centers.

Let's talk about contracting out for a minute.

Congress clearly intended that VA employees operate the canteen. The VA repeatedly acknowledged that fact by recognizing that 38 U. S. C. Chapter 75 excluded VCS from the requirements of A-76. And so it remained until recently when some DM&S official with no background in retail merchandising and with obvious disregard for the intent of the law decided it would be a neat idea to turn the canteen cafeterias into fast-food operations and CONTRACT THEM OUT TO THE LOWEST BIDDER. Again, the philosophy was contract now, worry about the law later.

If contracting out does occur, the VA will find itself repeating the mistakes of the past and recreating the problems and abuses that led General Bradley to discard concessionaire operations and create the Veterans Canteen Service in the first place.

Let's talk about personnel ceilings.

Why is the Veterans Canteen Service even subject to personnel ceilings? Public Law 81-67 exempted the Veterans Canteen Service, but the exemption was left out of title 38 when it was codified. But the law itself is still on the books. Placing VCS employees under ceiling does not save any tax dollars. Let's be honest about it. Placing VCS employees under ceiling is simply part of the big people-moving game known as FTEE.

Let's talk about investment of funds.

VCS is not permitted to invest its idle cash for income. Other similar activities such as AAFES, NAVRESSO General Post Fund, Post Office, etc. are allowed to do this simple financial step. This one way the service could generate income to upgrade and improve.

But, as you can see, the VCS which by law has exclusive control over its activities, in reality does not. It doesn't fully control its hiring and it doesn't control its funds the way it should be allowed to do.

There are ways, GOOD SOUND MANAGEMENT WAYS, to improve the VCS. But reorganization on the scale being proposed, contracting out in a way which will produce a hybrid (and we all know that Hybrids are unable to produce anything), is NOT the way to improve a system which already is sound.

I would draw your attention to an issue of vital importance. No matter what you decide to do with the Veterans Canteen Service, for pity's sake, give it a LEADER. The VCS has been without a Director for almost 2 years. What would have happened to your district if there has been an Acting Representative for 2 years? An acting Chairman of the board for Giant Food? For the Hecht Company? Is it any wonder the VCS is in distress? Even without all the other machinations, simply being leaderless is enough to create problems. The VCS needs a leader — a manager with expertise in this unique activity and in merchandising who can plan, organize, staff, direct and control this complex and important service.

Of course, one might ask, "Will such a leader have anyone to lead"? One year ago this subcommittee was advised that key management staff positions has been left vacant both in VCS Central Office and the Field Offices. These vacancies it was said affected the ability of the VCS to provide quality and supervision needed to maintain the esprit de corps which had been a VCS hallmark. One year ago, under existing tables of organization, there were 5 vacancies out of 18 management positions in Central Office and 6 vacancies out of 21 Field Office management positions. Today, ladies and gentlemen, the Central Office vacancies total 6 and the Field vacancies total 11. The Denver Field Office has only 3 management people left out of an authorized staff of 8. Worse yet, the Somerville Field Office has only 2 management people left. You can't run a nationwide commercial business without field offices. Yet someone in DM&S seems determined to close the VCS's Field Offices.

But guess what? Those people who are out there in the field haven't given up. They still get in on time every morning and work like the devil.

It does make one wonder, however. Has it been the intent all along of the Department of Medicine and Surgery to allow this to happen? To make it next to impossible for the VCS to provide quality levels of management? Next to impossible for the VCS to provide supervision and guidance? Next to impossible to recruit new, fresh blood? Next to impossible to continue with the sound VCS we've all know?

Ladies and Gentleman, for 3 and 1/2 years, DM&S has been trying to reorganize the VCS, to come up with a plan. This summer, at the request of the Administrator, who wasn't about to buy a pig-in-a-poke when asked to approve the VCS reorganization DM&S proposed, a task force was created and in two weeks that DM&S-controlled task force came up with a plan it thought the Administrator would buy. Well, I suggest we remember that infamous committee which was to invent the horse and came up with the camel. At least, their creation worked. I don't think a plan arrived at under pressure in two weeks' time can work. I think that's how we'll get that unproductive hybrid I mentioned earlier.

Let's get a REAL look at VCS. Let's see if there is need for improvement. If so, let's get some really thoughtful, intelligent suggestions. Let's have an impartial look at VCS.

I urge you to ask the General Accounting Office to look at the Veterans Canteen Service and to make any recommendations it sees fit. Let's determine once and for all if the VCS has been doing its job and how it should continue to do its job. Let's get the Department of Medicine and Surgery out of the reorganization business. Let's save the VA potential future embarrassment when fast-food service don't meet the needs of veteran patients, retail sales plummet, and non-VA employees don't care about our veterans. Let the GAO take a look before the VCS and its capacity to serve America's veterans is destroyed.

Statement of Vergil A. Young
Former Employee
Veterans Canteen Service, Central Office

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before this subcommittee to present information which is included in a study which I made for the Veterans Canteen Service. I have been employed in VCS Central Office from its inception to June, 1972 and intermittently thereafter.

On August 21, 1984, I was called by the former Director, VCS, Richard Percival, who asked me to make a study regarding the application of OMB Circular A-76 to VCS. Some confusion and disagreement existed within the VA regarding this matter.

APPLICATION OF OMB CIRCULAR A-76 TO VCS

Ms. Marjorie R. Quandt, ACMD for Administration, who is responsible for general supervision of VCS, testified on May 12, 1982, before the House Veterans Affairs Committee that "because of the definition in Title 38 for the Canteen Service, we have considered it exempt. Non-appropriated funds are not included in the program with A-76." Ms. Quandt's testimony is correct, as the OMB circular has existed for many years and inherently it does not apply to non-appropriated fund activities.

VA Circular 00-84-8 dated April 25, 1984 excluded the Canteen Service operations from the requirements of OMB Circular A-76, which states that Title 38 of the U. S. Code mandates that the VA conduct in-house certain activities, including canteen service. Later, VA Circular 00-84-32, dated September 12, 1984, identifies DM&S commercial activities to be included in VA's inventory for study under A-76. Included in the listing is VCS food service with a footnote as follows:

"Although the Veterans' (sic) Canteen Service is a statutorily-authorized activity (see 38 USC Chapter 75), it has no statutory mandate to furnish food services to patients, employees, outpatients and visitors. The Canteen Service assumed this responsibility over the past thirty years, and it is endorsed, recognized and supported by the Department. However, we believe the modern market for institutional food service is such that the Canteen Service should be studied under A-76."

The statement that the VCS has no statutory mandate "to furnish food service to patients, employees, outpatients and visitors" is not supported by the legislative or operational history of the VCS. Title 38 USC 4203 provides that canteen service may be furnished to VA employees, recognized veterans' organizations, and other persons employed at VA hospital and homes, and to relatives and other visitors. The law also limits the service to this group to the sale of merchandise or services for consumption or use on the premises. Consumable items on the premises consist of food and beverages.

Prior to the establishment of VCS, concessionaires provided limited food service for the above-mentioned customers. The extent of service included snack bars, soda fountains, cafeterias, etc. No service whatsoever was available at 12 hospitals. The quality of service, sanitation and prices charges evoked many complaints. VA Dietetic Service afforded some relief for employee food services through subsistence contracts. However, its facilities were overtaxed because of the huge influx of returning World War II veterans.

The Bureau of the Budget (now Office of Management and Budget) objected to the VA practice of providing food service for employees through *Dietetic Service* subsistence contracts, alleging that the subsidies amounted to several million dollars annually. Therefore, shortly after the VCS was established, the Bureau of the Budget in 1949 requested that the VA discontinue subsistence contracts and assign responsibility for employee food service to the VCS. The VA agreed and provided space and facilities for expanding the VCS food operation over the years.

Over time, extensive tests have been conducted for improving the method of providing food service to employees, patients, visitors and other authorized persons. One method tested over a period of years was to assign the VCS complete responsibility for providing food service, except for the in-hospital patient, with the mandatory requirement that they obtain all food items and dishwashing service from Dietetic Service. Canteen kitchens and dishrooms would be completely eliminated. The above method is similar to the dual responsibilities required under the provisions of A-76. Results were evaluated and the decision was made by the Administrator that food service as now conducted by the VCS is in the best interest of all parties.

The VCS is proceeding, as directed, with the A-76 study; however, there are several points in the legislative and operational history of the VCS which merit consideration by those responsible for making the final determination of action to be taken.

The VCS has been considered a non-appropriated fund activity by General Accounting Office (GAO), Office of Management and Budget (OMB), Department of Defense (DOD) and Office of Personnel Management (OPM), and the Administrator for Federal Procurement Policy, OMB, Executive Office of the President. The VCS was also included in the wage rate system studies conducted by the Federal Pay Rate Advisory Committee. This Federal Wage System, enacted by Public Law 92-392, August 19, 1972, includes special provisions for VCS and other non-appropriated fund employees. The Civil Service Commission (now OPM) is responsible for administering the law with the advice of the Federal Pay Rate Advisory Committee.

The VCS generates revenue from its customers sufficient to pay for all costs of operation and to provide for capital expenditures for replacement of obsolete and unserviceable equipment and fixtures and to provide merchandise for new or expanded operations. The paperwork involved in the A-76 cost comparisons, etc. requires considerable time and effort. Beneficial results are questionable.

In 1976, a study was made of Procurement Payable from Non-Appropriated Funds for the Administrator for Federal Procurement Policy, Office of Management and Budget, Executive Office of the President. The report concluded that VCS procurement operations were efficient, effective and economical, and conform with applicable laws and regulations. The report also stated that:

"The canteen program is service-oriented for hospitalized patients. Its principal value is the extent to which it contributes to patient care and comfort. The canteen provides an attractive atmosphere, where patients may find some relief from confinement and relative emptiness of a hospital room. Hospital officials recognize that the Canteen Service is a morale builder for hospitalized veterans. The unique services provided include scheduled visits of ward carts to the bedsides of non-ambulatory patients; special facilities for the handicapped; supervised visits to the canteen by psychiatric patients giving them the opportunity to select items, including clothing, to accommodate their preferences and improve their appearance; and barber service for all patients to encourage interest in their personal grooming."

The GAO has audited VCS over a period 40 years without reporting any significant exceptions. The 1957 report states that the VCS provides certain extraordinary services which are considered invaluable to the hospitalized veteran. The GAO has accepted the premise that these services are costly and should be considered when determination is made of the amount of "reasonable" charges to be assessed the VCS for services provided by other VA components.

Among the costly extraordinary services noted by GAO are the extra cost of operating canteens at small hospitals at isolated locations with attendant low sales potential; the hours which canteens remain open to provide services regardless of the practicability of such hours from a sound business standpoint; ward cart service for non-ambulatory patients; the extent to which canteen services help a patient become rehabilitated, thus reducing his stay in the hospital; the savings to the VA in assigning responsibility for employee-visitor food service to the VCS; and the extensive canteen visitation program conducted for neuropsychiatric patients.

The VCS has received favorable reports from many groups, both within and outside the VA, including Congressional Committees, the GAO, Booz, Allen & Hamilton, Herbert Hoover Commission Survey of Government Competition with Private Enterprise (1954), Administrator of Federal Procurement Policy, OMB, VA Management Engineering Service, Medical Center Directors, VA Voluntary Service, service organizations, and individuals.

In 1977, VA Management Engineering Service made a comprehensive study of the VCS program. A report dated December, 1977 includes the following pertinent observations:

1. The VCS is indeed "self-sustaining" and cost effective, requiring no funding by the Federal Government. All expenses are paid from current revenues, including reimbursements to VA for such items as rent, utilities, maintenance and repair, laundry, telecommunications, etc.

2. The VCS makes an invaluable contribution to patient care. Psychiatric and other long-term patients "center" on the canteen as an alternative to normal community living and as a relief from the institutional environment of a hospital ward or domiciliary ward. Opportunities to purchase personal items or gifts for friends and family are invaluable. Medical authorities consider such opportunities therapeutic. These "real life" experiences assist the long-term patient in the transition from the protective hospital environment to responsible everyday living in the community.

At a meeting of VCS Field Directors in March, 1963, Dr. J. J. Blasko, Chief of VA Psychiatry Division, made the following significant comments:

1. The VA mental hospitals, including Canteen Service, are far ahead of other systems in the care of mental patients.

2. The canteens in mental hospitals are of considerable value in assisting patients to make the necessary adjustments. Patients appear to be more comfortable in the canteen than elsewhere in the hospital due to the privilege of making his own selection of clothing, food, beverages, etc.

3. The canteen assists in the socialization process. Patients can entertain and be entertained by their visitors in the canteen. It exposes the patients to a phase of community living. There is a tolerant atmosphere in the canteen.

The principal reasons for creating the VCS were: (1) to provide service where none existed, (2) to correct deficiencies noted where service was provided, and (3) to improve canteen facilities to accommodate the large influx of veterans from World War II. The goal was to provide similar service at all locations to that which was provided at military exchanges. Military exchanges have followed the policy of subsidizing small or remotely located activities with profits generated by larger operations.

As VCS established a policy of similar service nationwide, inevitable operating losses occurred at many locations with low sales volume because of limited customer potential. Consequently, it is imperative that the Service as a whole is to function as a unit so that the profitable operations can carry the losing ones while the Service continues on a self-sustaining basis.

The review of VCS operations under A-76 is being made on an "each location" basis. If contracts are consummated on the same basis, it is likely that the VCS will lose the operations which are self-sustaining. The remaining operations (about 43 percent of the total) will need to be drastically curtailed. Such action would appear to contravene the mandate in enabling legislation that the service as a whole is to function as a unit.

With his letter of June 19, 1946, to the Speaker of the House of Representatives, transmitting a draft of a proposed bill later enacted into Public Law 79-636, the then-Administrator of Veterans Affairs, General Omar M. Bradley, included an explanatory note in support of Section 8 of the bill. This explanatory note reads as follows:

"The Service as a whole is to function as a unit and each sales store and service outlet will be an integral part thereof. Since the Service is to function as a unit, it is considered essential that it have maximum direct control over its activities."

PROPOSED REORGANIZATION OF VCS

A proposal is being considered to abolish the VCS Field Offices; to disperse the functions of VCS Central Office to other VA organizational components; and to provide line authority from the Chief Medical Director to the Regional Medical Director to hospital management. The implementation of this proposal would appear to contravene the enabling legislation which provides that the Service shall function as an independent unit in the Veterans Administration and shall have exclusive control over all its activities including sales, procurement and supply, finance, including disbursement and personnel management. The legislation mandates also that the VCS as a whole is to function as a unit and each store and service outlet will be an integral part thereof.

After World War II it became apparent that VA facilities and services would have to be expanded to provide adequate care and service to the vast number of returning Veterans. When the Canteen Service was established in 1946, it was placed at the Administrator's staff level. During a VA reorganization, the VCS was placed under an ACMD for Administration. Over the years, some were helpful and some were destructive and created problems in the operation of the VCS as a business. As a result, it is recommended that consideration be given to placing the VCS somewhere outside of DM&S or that the parameters for the Director for Administration be clearly defined as to the responsibility for day in and day out operation of the VCS and for operational decisions. Booz, Allen & Hamilton Management Consultants were engaged in 1952 to make a comprehensive study of the VA's programs and organizations and to make recommendations to enable the VA to fulfill its increased responsibilities.

The report stated also that the present organization meets with the provisions of the law for control of financial and merchandising aspects; for establishment of operating responsibility and accountability, and that the present organization has been successful and it should be preserved.

The report further stated that there should be no interference from above with merchandising or financial management of canteens not only because the law specifically appears to forbid it, but also because the requisite knowledge to judge such matters competently has not been specifically provided for elsewhere in the VA outside of the Canteen Service.

The report concludes that there is no organizational reason for making the operational direction of the Canteen Service a part of hospital management; that the relationship of canteens to hospital management amounts to no more than normal conformance to station regulations and standards of sanitation and service.

On September 30, 1953, shortly after the VCS was transferred from the Administrator's Office to the Department of Medicine and Surgery (DM&S), R. H. Bucknell, Director, VCS, met with the staff of the Assistant Chief Medical Director of Operations, the Area Medical Directors and their respective Chiefs, Medical Administration. Mr. Bucknell remarked that the Canteen Service was delighted to become a part of the Department of Medicine and Surgery, and it would continue to provide the best type of canteen service. Mr. Bucknell stated further that the VCS was established by law to operate as a separate entity within the VA; that it has its own supporting services, such as finance, procurement, and personnel; and that the GAO performs a financial audit annually and also determines if the VCS is operating in accordance with all applicable laws.

Mr. Bucknell stated also that the VCS endeavored to provide the services desired by the hospital manager, including cafeterias and snack bars, and that it did not refrain from providing such services at non-profitable activities if there was a need for such service.

Mr. Bucknell concluded that in FY 1953, the Canteen Service operated 45 canteens at a loss, which made it necessary to subsidize these losing operations with funds received from the profitable operations; and that the VCS desired to make all canteens pleasant and inviting.

The present organization and assignment of responsibility for the operation of the Canteen Service is set forth in VA Manual M-1, Part IV, Chapter 1, which provides the Director, VCS, under the direction of the Assistant Chief Medical Director for Administration, is designated to exercise exclusive control over the activities of the Service, including the VCS Field Offices and health care facility canteens, as prescribed by 38 U. S. C., Ch. 75, and VA Organizational Manual, paragraph 203.7. The manual provides also that health care facility Directors are not responsible for technical canteen operating matters. They do have a major interest in the extent and quality of canteen services provided, and should integrate the canteen program with other facility programs and services when areas of common interest exist. Health care facility Directors are responsible for providing to the canteen special services, including the following:

- (1) Furnishes adequate space and maintains it in the same manner and like order and condition as space occupied by other organizational elements of the VA.
- (2) In coordination with the Field Directors, VCS, and the Canteen Officer, participates in determining the hours of canteen operation and the extent of canteen services, including authorized activities.
- (3) Maintains housekeeping and sanitation in all areas of the canteen.
- (4) Furnishes common services such as utilities, communications, forms, supplies and repairs.
- (5) Provides for canteen procurement of subsistence items from VA Supply Service, and includes canteen requirements in Supply Service contracts.

- (6) Provides facilities for supplementary feeding through vending machines.
- (7) Includes the canteen in the PAID system for personnel and payroll processing.
- (8) Provides security for canteen.

In short, the Medical Center Directors have responsibility for all except technical canteen operating matters.

The proponents of the proposed reorganization justify the need thereof on tenuous evidence. Also, statements made to this Subcommittee at the hearing on September 18, 1985 are incredibly inaccurate, e. g., page 93: "Since 1946 * * * despite many changes in the business environment, the organizational structure and procedures of the VCS have remained essentially the same." The figures quoted in the hearing for cost savings through reorganization and for average employee wages are not valid and should not be accepted.

Neither the proponents of VCS reorganization nor the experts and task forces selected by these proponents have made in depth studies of the VCS. Principal objectives which are advocated by proponents of VCS reorganization can easily be accomplished effectively within the present organization. Minor refinements and emphasis in certain areas might be desirable. If there should appear to be a valid reason to change drastically the VCS organization, it would be to the best interest of all concerned to engage the services of a management firm such as Booz, Allen & Hamilton, who have expertise and experience in this area.

The position of Director, VCS, has been vacant since March, 1985, when Mr. Richard Percival retired. Mr. Robert Leyton has served as Acting Director since that time until recently when he was reassigned within the VA.

For the past two years rumors have emanated primarily from VA Central Office that the VCS would be abolished as presently structured; that its food service would be provided by private contractors; and that its other functions would be distributed to other components within the VA. These rumors were generally unchallenged and unfortunately contributed to low morale of VCS employees nationwide and the loss of many competent employees.

PERSONNEL CEILINGS

Problems arising in the allocation of personnel ceilings appear to have influenced the decisions regarding A-76 and reorganization of VCS.

Shortly after VCS was established, the Bureau of the Budget advised the VA that canteen employees were subject to personnel ceiling control in accordance with Section 607 of the Federal Employees Pay Act.

It was increasingly apparent that the mission for which the VCS was established could not be accomplished effectively so long as employment of its personnel was subject to restrictive personnel ceilings. The operation is essentially a merchandising activity which requires flexibility of control in its management as well as prompt and unhampered adjustments of fluctuations inherent in any operation of this type. Personnel requirements are based primarily on volume of sales and extent of service provided. The Service cannot be expected to conduct an efficient merchandising operation unless it has full authority to add personnel to handle increases in volume or extensions in service. Unpredictable changes in the operation specifically due to seasonal fluctuations and changes in the scope of authorized services rendered make it necessary that these adjustments be primarily independent of personnel ceiling which are not readily adjustable.

In accordance with sound commercial practices, the Service itself must maintain control over the number and cost of personnel without the necessity for imposing additional control in the form of personnel ceilings. Since the salaries of all employees are paid from the funds of the Service and not from VA appropriations for salaries and expenses and since such salaries constitute a major expense of the canteen operations, the Service cannot retain any non-essential personnel on its payroll and also furnish merchandise and services at reasonable prices.

From 1946 to 1949, the Veterans Canteen Service was subject to ceilings required by the Federal Employees Pay Act of 1945, as amended. This placed an undue burden on the VCS; consequently, legislation was sought and passed exempting the VCS from personnel ceilings (Public Law 67 approved May 21, 1949). This exemption was not included when all VA laws were codified in 1958 as Title 38, U.S.C. because at that time there were no personnel ceilings for government agencies. In 1969 when OMB began to administer government-wide ceiling controls, VCS employees were included.

Loss of the ceiling exemption has resulted in an unnecessary burden on the VCS. It seriously inhibits the Service's ability to fulfill its mission of service to the hospitalized veteran. This situation typically occurs during the hiring freezes and limitations which are applied for the purposes of reducing Federal spending or balancing the Federal budget. The VCS pays all salary cost from income generated by sales; therefore it has not impact on Federal spending from tax revenue or government financing programs.

Finally, a finite number of employees are required to conduct the retail and food services of the VCS over the number of hours the canteens are open for business. Hiring freezes have a disproportionate effect on VCS because of high turnover rates inherent in retail and food service operations. Artificial and arbitrary ceiling should not be imposed upon an operation which exercises a far more effective control over personnel in accordance with sound business practices.

The VCS counterparts in the non-appropriated fund military exchange (PX) system are exempt from OMB-administered ceilings and hiring freezes.

STATEMENT OF JACK WESTALL
FORMERLY THE ACMD FOR ADMINISTRATION
DEPARTMENT OF MEDICINE AND SURGERY
AND
FORMERLY DIRECTOR, BAY PINES VAMC

THE MOST OVERLOOKED FACT ABOUT THE CANTEEN SERVICE IS THAT IT IS SERVICE ORIENTED TO NEEDS OF THE VETERAN PATIENT OR DOM MEMBER. BY OPERATING AT A NATIONAL LEVEL, THE SERVICES PROVIDED ARE MAINTAINED AT A HIGH DEGREE OF UNIFORMITY BECAUSE THE LARGER CANTEENS (MONEY MAKERS) OFFSET THE SMALLER, ISOLATED CANTEENS (MONEY LOSERS).

A REVIEW OF THE SYSTEM WILL SHOW THERE ARE MANY CANTEENS NOT OPERATING AT A PROFIT. AGAIN, ITS THE NEW YORKS, CLEVELANDS, ETC. THAT CARRY THE MILES CITYS, BATAVIA-ERIES ETC. IT'S BEYOND REASON TO EXPECT A LOCAL ENTREPRENEUR TO BE INTERESTED IN CONTRACTING FOR A LOSING BUSINESS. THE SIZE OF A HOSPITAL OPERATION IS A FRACTION OF THAT OF A MILITARY BASE.

CANTEEN SERVICE DOESN'T COST THE TAXPAYER A PENNY. IT HAS, SINCE ITS CONCEPTION, PAID ITS OWN WAY. IT NOT ONLY REPAID THE INITIAL GRANT TO ESTABLISH IT BUT MANY MILLIONS MORE TO THE TREASURY. TODAY, IT FULLY PAYS ITS OWN RENT AND UTILITY COST AND ALSO FOR EQUIPMENT AND SPACE MODERNIZATION.

IF THERE IS A REAL NEED FOR THE VA TO DESIGNATE A PROGRAM FOR A-76, THERE ARE A NUMBER THAT CAN BE SACRIFICED BEFORE CANTEENS AND THE DIRECT BENEFITS IT PROVIDES TO PATIENTS.

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ANOTHER FACET OF CANTEEN SERVICE RESPONSIBILITY OVERLOOKED OR DOWN PLAYED IS FOOD SERVICES FOR EMPLOYEES. LIKE MANY OTHER HOSPITAL EMPLOYEES IN THE EARLY YEARS, I CONTRACTED TO EAT ONE MEAL A DAY IN THE HOSPITAL DINING ROOM. IN THE EARLY 1950'S B.O.B. NOW OMB, RULED THAT THIS PRACTICE BE STOPPED AS THEY CONSIDERED THIS TO BE THE GOVERNMENT SUBSIDIZING EMPLOYEE FOOD SERVICES (WHICH IT WAS, WE ONLY PAID LIKE 36 CENTS A MEAL ON CONTRACT - BUT PAID WHETHER WE ATE OR NOT). BEFORE THIS CHANGE, CANTEEN FOOD SERVICE WAS MORE ON THE ORDER OF FOUNTAIN SERVICE WITH LIMITED SANDWICH SELECTIONS. WHEN THE VA WAS FORCED TO STOP FOOD SERVICES FOR EMPLOYEES, CANTEEN WAS ASSIGNED THIS ROLE OVER THE YEARS.

REORGANIZATION ALWAYS REMINDS ME OF THE TACTIC OF CHANGING MANAGERS BECAUSE THE "TEAM" IS LOSING. I HONESTLY DON'T UNDERSTAND THE STATEMENT THAT A HOSPITAL DIRECTOR DOESN'T HAVE CONTROL OVER THE CANTEEN OPERATION. VCS HAS COME A LONG WAY IN RECENT YEARS TO JOIN THE DM&S FAMILY AND TO RELINQUISH MUCH OF THE INDEPENDENCE INHERENT WITH THE ESTABLISHMENT OF A SERVICE IN 1946. IF VCS IS NOT FULLY INTEGRATED INTO DM&S TODAY, THEN THE BLAME MUST REST WITH DM&S AND NOT VCS.

A FIELD DIRECTOR SETS THE STANDARDS FOR HIS/HER MEDICAL CENTER OPERATION, WHETHER IT'S EFFECTIVE MEDICAL RECORD KEEPING, CLEANLINESS OF WALLS AND HALLWAYS OR THE "ATTITUDE" OF THE RECEPTION AREAS. CANTEEN IS SIMPLY ANOTHER OPERATING ELEMENT AND IF IT IS NOT MEETING LOCAL STANDARDS IT REFLECTS LOCAL MANAGEMENT MORE THAN CENTRAL CONTROL.

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ON THE SELECTION OR REPLACEMENT OF THE CHIEF OF THE CANTEEN SERVICE, MEDICAL CENTER MANAGEMENT HAS AS MUCH INPUT AS THEY DO WITH OTHER CENTRALIZED POSITIONS LIKE MEDICAL ADMINISTRATOR, BUILDING MANAGEMENT, SUPPLY, ENGINEERING ETC. WHICH CAN BE FROM SOME TO NONE. THEY CERTAINLY HAVE MORE WITH VCS THAN SOME OF THE MEDICAL SERVICES - NURSING, RESEARCH, ETC. THEY HAVE NO INPUT WITH ASSISTANT DIRECTORS AND CHIEFS OF STAFF.

THE WEAKNESS IS NOT IN THE ORGANIZATION BUT IN THE UNDERSTANDING OF THE PURPOSE AND SERVICE OF VCS IN MEETING A BASIC NEED OF BOTH PATIENTS AND EMPLOYEES OF THE VAST VA SYSTEM. SUPPORT AND LEADERSHIP IS FROM THE TOP AND IF THE PROBLEM IS IN QUESTION THEN THATS THE APPROPRIATE PLACE TO START THE EVALUATION.

IF DM&S FEELS THEY HAVE NO CONTROL OVER VCS, THEY WILL BE SHOCKINGLY SURPRISED AT WHAT THEY WILL GET SHOULD A-76 FORCE THEM TO RELY ON A PROFIT DETERMINED PRIVATE CONCESSIONAIRE TO PROVIDE THE DESIRED SERVICES.

TO SUMMARIZE

LACK OF DIRECTOR OF VETERANS CANTEEN SERVICE SINCE 1985

THIS REFLECTS ALMOST TOTAL INDIFFERENCE TO VCS BY TOP MANAGEMENT OF DM&S, REGARDLESS OF ANY ANTICIPATED OR LONG RANGE PLANS FOR REORGANIZATION, A PERMANENT DIRECTOR OF VCS SHOULD HAVE BEEN APPOINTED. A PROGRAM OF THE MAGNITUDE OF VCS NEEDS LEADERSHIP AND STABILITY ON A DAY TO DAY BASIS - NOT A PERIODIC OVERSIGHT BY A TEMPORARY APPOINTMENT OF A CAREER DM&S EMPLOYEE WHO HASN'T CUT IT IN OTHER DM&S MANAGEMENT ASSIGNMENTS.

65 709 156

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IF SUCH TALENT IS AVAILABLE, THE DIRECTOR SHOULD COME FROM THE RANKS OF VCS. CLYDE COOK WAS AN EXCELLENT VCS DIRECTOR (AS A NON-CAREER VCS EMPLOYEE) BUT CLYDE COOK WAS AN EXCEPTIONAL FEDERAL EXECUTIVE. VCS IS TOO COMPLEX AN OPERATION TO BE UNDERSTOOD AND MANAGED BY A NON-VCS CAREERIST.

CONTRACTING VCS FOOD UNDER A-76

THIS WOULD NOT SAVE THE VA OR GOVERNMENT EITHER SALARY OR EMPLOYMENT LEVELS. AS COMMENTED ON EARLIER, CANTEEN IS A SELF-SUSTAINED, COST-EFFECTIVE OPERATION. WHATEVER SERVICE DEFICIENCIES EXIST CAN BE CORRECTED BY DM&S SETTING THE STANDARDS. DM&S WANTS FOR ITS PATIENTS AND EMPLOYEES - AND THEN ASSURING THAT THESE STANDARDS ARE MET. THIS IS MORE OBTAINABLE THROUGH VCS THAN A PROFIT DIRECTED BUSINESS ENTERPRISE.

FOOD SERVICES AT THE LOCAL MEDICAL CENTERS IS VITALLY IMPORTANT. WHERE ATTRACTIVE AND REASONABLY PRICED MEALS ARE SERVED AT THE CANTEEN, THOUSANDS OF HOURS OF MANPOWER IS SAVED ANNUALLY BY KEEPING EMPLOYEES ON STATION AT LUNCH TIME.

LONG-RUMORED REORGANIZATION OF VCS

I COMMENTED ON THIS EARLIER BUT WHO WOULD RECOGNIZE DM&S WITHOUT A PLANNED, IN-PROCESS OR ABOUT TO HAPPEN, REORGANIZATION. I WOULD LIKE TO SEE, FOR A CHANGE, THAT THE FOCUS OF A REORGANIZATION WOULD BE DIRECTED TOWARDS IMPROVED PATIENT AND EMPLOYEE SERVICES RATHER THAN PROJECTED AND UNREALISTIC SAVINGS OF MONEY AND MANPOWER.

VCS DIDN'T GET WORSE IN THEIR 40 YEARS OF EXPERIENCE, THEY GOT A
LOT BETTER IN EVERY ASPECT:

Acting Controller (04)

General Counsel (02)

Canteen Service

1. This refers to your memorandum to the Administrator dated August 16, 1957, which was forwarded to this office at the request of the Administrator for comment regarding the following enumerated recommendations:

"1. Current directives should be amplified to define the responsibility of the manager in the area of canteen operations.

"2. TB-DC-65, which exempts Canteen Service from usual reporting procedures, should be amended so as to bring the service within such procedures. (This is intended and should cause survey reports to be routed through the manager.)

"3. Instructions which prohibit Internal Audit Service from appraising or examining activities of the Canteen Service should be rescinded.

"4. A simple report should be made not less than semi-annually to the Administrator and the Chief Medical Director setting forth pertinent information as to sales, expenses, profit, and plans for disposition or use of profits.

2. Public Law 636, 79th Congress, which was enacted to establish and provide for the maintenance and operation of a Veterans Canteen Service in the Veterans Administration, provides in Section 8 thereof that:

"It is the purpose of this Act that, under control and supervision of the Administrator, the Service shall function as an independent unit in the Veterans' Administration and shall have exclusive control over all its activities including sales, procurement and supply, finance, including disbursements, and personnel management, except as otherwise herein provided."

In order to accomplish the purpose of the Act the Administrator is authorized, among other things, in Section 2:

"....

"(i) To make such rules and regulations, not inconsistent with the provisions of this Act, as he considers necessary or appropriate to effectuate its purposes.

Acting Controller (04)

"(j) To delegate such duties and powers to employees as he considers necessary or appropriate, whose official acts performed within the scope of the delegated authority shall have the same force and effect as though performed by the Administrator.

"...."

It is also to be observed that Section 7 of the Act provides:

"The Service shall maintain an integral set of accounts which shall be audited annually by the General Accounting Office in accordance with the principles and procedures applicable to commercial transactions as provided by the Government Corporations Control Act. No other audit shall be required."

3. General Bradley proposed the enactment of the aforementioned law in a letter to The Speaker, House of Representatives, dated June 19, 1946. An accompanying statement explained, in part, that:

"Section 9 (Section 8 of the Act) declares the purpose of the act to be that the Service shall function as an independent unit within the Veterans' Administration and have exclusive control over all of its operations. The Veterans' Administration now operates 107 hospitals and homes at each of which there is need for canteen service. When the current hospital program is complete the number will be substantially increased. The Service as a whole is to function as a unit and each sales store and service outlet will be an integral part thereof. Since the Service is to function as a unit and its operations are of a commercial nature, it is considered essential that it have maximum direct control over its activities."

4. It is my opinion that the Administrator has authority to exercise control and supervision over the Veterans Canteen Service under Section 8 of the Act by regulation or otherwise to the extent such supervision is reasonably necessary or desirable in accomplishing the purpose of the Act establishing such Service. To the extent the enumerated recommendations aid the Administrator in supervising such Service they are legally proper.

Acting Controller (04)

5. Insofar as the third recommendation is concerned, it is my view that the requirement of the statute that the Veterans Canteen Service function as an independent unit in the VA, which was included in the statute in order that the Canteen Service would have maximum control over its own activities, does not preclude the Administrator from directing that the Internal Audit Service appraise and examine activities of the Canteen Service and render reports of its findings for the guidance of the Administrator in connection with his control and supervision of the Canteen Service. The explanation of the law which accompanies the Administrator's letter to the Speaker of the House of Representatives indicates that the provision in Section 8 of the Act that no audit other than by the General Accounting Office shall be required was intended to prohibit any other "governmental-type" audit usually applicable to appropriated funds. , This obviously could not be construed to preclude examination and appraisal by the Internal Audit Service of the records and activities of the Service and report thereof to the Administrator in the manner set forth in paragraphs 160.1 and 160.4 of the VA Organizational Manual.

6. It is to be observed, however, that since the Veterans Canteen Service is, by law, an independent unit in the VA, no instructions, directives, etc., may be issued pursuant to the recommendations which would place the Canteen Service under any degree of control or supervision by any official other than the Director, Veterans Canteen Service, and his superiors, including the Assistant Chief Medical Director for Operations, the Chief Medical Director, the Deputy Administrator and the Administrator, with respect to performance of Canteen service duties and functions authorized by the law. Accordingly, it is assumed that while recommendations and suggestions requiring direct control and supervision will be taken by the Administrator or subordinate officials who have delegated authority and responsibility for operation of the Veterans Canteen Service.

GUY H. BIRDSALL

Att.
Memo 8/16/57 w/corres.



Statement of
The American Legion

1608 K STREET, N. W.
WASHINGTON, D. C. 20006

by

PAUL S. EGAN, DEPUTY DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
THE AMERICAN LEGION

before the

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATION
COMMITTEE ON VETERAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

on

REORGANIZATION OF THE VETERANS CANTEEN SERVICE

SEPTEMBER 24, 1986

TESTIMONY OF
PAUL S. EGAN
DEPUTY DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
THE AMERICAN LEGION
before the
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
September 24, 1986

Mr. Chairman and Members of the Subcommittee, The American Legion appreciates this opportunity to appear before you this morning to present its views on the Veterans Canteen Service (VCS). We commend you, Mr. Chairman, for holding this hearing, the second such hearing on this subject in as many years. On the other hand, it is unfortunate that this hearing has been necessitated by VA's failure to recognize either the importance of a vital VCS to hospitalized veterans or the statutory requirement to maintain its integrity as an independently functioning service.

As you will recall from last year's September 18 hearing, VA has proposed to reorganize the VCS and initiate cost effectiveness studies under the auspices of the Office of Management and Budget's (OMB) circular A-76. It became evident as a result of that hearing that the consensus of the Subcommittee correctly believed this plan to be inappropriate. VA stated at the hearing then that the Subcommittee and interested veterans service organizations would be allowed active involvement in any reorganization plan's development. Since that hearing, The American Legion has heard nothing from VA and the Subcommittee heard nothing from VA until it was announced that today's hearing had been scheduled.

In the interim period, VA has maintained the Directorship of VCS vacant while installing an acting director who, most reports suggest, has seriously undermined VCS morale. Also, we are advised of a survey undertaken of VAMC Directors to measure the need to reorganize VCS. The findings of that report, we are advised by sources in the field, were so overwhelmingly in favor of leaving VCS as it is that the report of this survey has never been released. Finally, the VA has developed a "conceptual plan" for reorganization of VCS and the VA Administrator has already approved of an "implementation task force" without any input from the veterans community or the Veterans Affairs Committee.

From a budgetary standpoint, Mr. Chairman, the VCS is relatively insignificant by contrast with many other more expensive and obviously needed veterans programs. From the standpoints of operational efficiency and value to hospitalized veterans, however, the VCS stands out as a well functioning program deserving of freedom

from organizational tampering. The VCS works so well, in fact, that efforts to tamper with it constitute a classic example of decision-making powered by ideological considerations instead of the preferable decision-making that is driven by sound public policy considerations.

In the broadest sense, it is undeniable that this Administration is biased in favor of contracting out and privatization. The fiscal public policy wisdom of this bias is certainly arguable, but the fact that public policy considerations have created this bias is undeniable. In the narrower realm of applying this bias to specific programs, examples of ideological zeal replacing the underlying public policy justification for the bias are numerous. The insistent application of this bias by VA to the VCS is one glaring example of zeal being substituted for any public policy consideration whatever.

A historical survey of the VCS is in itself a refutation of the fiscal policy wisdom of tampering with this program. It was created under the authority of P.L. 79-636 on August 7, 1946. Section 4208 of the statute provides "...the Service shall function as an independent unit within the Veterans Administration and shall have exclusive control over all its activities including sales, procurement and supply, finance, including disbursements and personnel management..." (This alone suggests to The American Legion that the VA's "conceptual plan" outlined in its September 2 letter to Chairman Montgomery either is or ought to be illegal).

During Fiscal Years 1947 and 1948, \$4,965,000 was appropriated to enable the VCS to commence operations. Since that time, no additional appropriations have been made (emphasis added). Available statistics show that from its inception through the end of Fiscal Year 1985, the cumulative net income of the VCS was almost \$64 million. Excess funds of over \$12 million have been transferred to the U.S. Treasury as miscellaneous receipts. Parenthetically, these transfers have included the original appropriations in Fiscal Years 1947 and 1948 of \$4,965,000. The Service currently generates sufficient revenue to pay all operating costs including equipment replacement, renovations and expansion of operations. Overall sales have increased steadily. In Fiscal Year 1985, for example, VCS produced the highest sales ever amounting to just over \$183 million. Retail sales were approximately 56 percent of total volume and food sales were 42 percent of total volume. Net profit for Fiscal Year 1985 was reported to be \$3.8 million.

The VCS provides uniform services in all VA hospitals regardless of their geographic location or their size. Importantly, this uniformity of service provided requires some of the smaller more remote canteens to operate with annual losses. These losses, however, are absorbed by the larger canteens that earn substantial profits. Moreover, if uniformity of service is desirable -- and we believe it

is -- then tampering with the independent structure of VCS may jeopardize the Service's ability to provide the same service to hospitalized veterans in a remote rural VAMC as that provided to a hospitalized veteran in a larger metropolitan VAMC.

To engage in tampering with this highly successful program makes virtually no sense from a fiscal policy perspective either. unless VA deliberately sought to bring the VCS to its fiscal knees, the prospect of contracting out large profit-making canteens is foolish. Were that to happen, the small canteens that operate with a deficit would have to be shut down as too costly and similar services would likely never be replaced by contractors refusing to operate in money-losing rural VAMC's.

The VCS also contributes in other related areas. Often there are instances of gratuitous feedings for employees, veterans, volunteers and other persons at canteen expense. This contributes to good morale and good morale leads to better patient care. A contractor could hardly be expected to engage in this type of practice.

Against this background, the threat of VA meddling has had a clearly adverse effect on the VCS. The length of time the VCS director's position in VA Central Office has been vacant and the constant threat of contracting out are two examples. Our perception of the Service is that morale is very low. There has been an unmistakable lack of communication between field canteens and VA Central Office. There is no evidence of Central Office resistance to contracting out. Personnel in the VCS have lived with the threat of reorganization for the past three and one-half years. All of this has resulted in recruitment problems for trainee positions, early retirements, requests for transfer to other services and, in some instances, the fear for job security has prompted transfer requests with position downgrades.

In conclusion, Mr. Chairman, we find the VA to have been cavalier in its failure to apprise either this committee or the veterans community of its underlying intentions for the VCS. Reorganization of VCS makes no sense from a fiscal, public policy or a service to hospitalized veterans perspective and proceeding with reorganization may even be illegal. As currently configured, the VCS is a shining example of a cost-effective and efficient federal program.

What the VCS needs now, more than anything OMB might devise, is the filling of the VCS Director's position with someone possessing proven field experience, the freedom to restore VCS morale and the ability to continue providing uninhibited service to this nation's hospitalized veterans.

Mr. Chairman, that concludes our statement.

STATEMENT OF
JAMES N. MAGILL, DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO
VETERANS' CANTEEN SERVICE

WASHINGTON, D. C.

SEPTEMBER 24, 1986

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for the opportunity to present the views of the Veterans of Foreign Wars of the United States with respect to the status of the Veterans' Canteen Service. The VFW is appreciative of your holding this hearing, demonstrating the Subcommittee's and your concern for our nation's veterans.

The Veterans' Canteen Service (VCS) was established forty years ago with the enactment of Public Law 79-636. Since then, only one hearing has been held to evaluate the canteen service and that was one year ago this month. We believe the canteen service has a definite place within the Veterans Administration and serves veterans well.

Prior to the establishment of the service, various entrepreneurs recognized the potential profitability in operating private businesses catering to the additional needs of hospitalized veterans not normally provided by the Veterans Administration. Unfortunately, these forerunners to the Veterans' Canteen Service were not located in all medical facilities nor were they uniform in the services they provided. As a result, many complaints were registered with the Veterans Administration forcing the VA to conduct a thorough investigation of the system. Of course, as we all know, the product of that investigation was the creation of the Veterans' Canteen Service. Today, though, it appears the Office of Management and Budget (OMB) and to some degree the Veterans Administration have not learned the lessons of history.

While it is our understanding the canteen service is exempt from contracting out under OMB Circular A-76, OMB is proposing to contract out some of the VCS food service operations under this particular circular. As we have already indicated, it was because of the inadequate service provided by the private sector that the VA initially had to create the Veterans' Canteen Service. The VA has now successfully rectified problems associated with private-sector control such as substandard sanitation practices, minimal service and what is probably the most reprehensible offense--the exploitation of veterans. The Veterans' Canteen Service, particularly the cafeterias and vending rooms, also serves our veterans by providing a change of scenery for those not acutely ill. The comparatively cheaper prices are a definite plus to not only veterans but visitors, volunteers and employees as well.

The Veterans' Canteen Service has proven to be a financial asset to the VA, not a liability. The total profit in FY '85 alone was \$3.5 million on sales of \$183 million. It should also be noted each canteen pays one and one-half percent of its gross sales revenue to the government. In addition, the VCS can certainly be considered a fringe benefit for VA employees on the station as well as a benefit to the patients--an employee fringe benefit for which the VA does not make a financial contribution.

While it is true some smaller stations do operate continuously in the red, that deficit is recouped from the nationwide system. If the VCS food service was turned over to the private sector, veterans serviced by these smaller stations would undoubtedly be charged higher prices to make up the difference. Taking the foregoing into consideration, it appears to the VFW that it would be a big mistake and just plain "overkill" for this profit-making VA-controlled enterprise to be swept up in the A-76 process.

-2-

It has also been brought to our attention that the Veterans Administration is taking under consideration the reorganization of the Veterans' Canteen Service. Again, as one of the few profit-making entities within the federal government, we strongly question the need or the wisdom of reorganizing a successful program. Certainly, the primary motivation behind any reorganization should be the correction or repair of evident shortcomings or ineffective and inefficient operation. If anything, the reorganization plan proposed by the VA would, in our opinion, hinder more than help an already successful operation.

In closing, Mr. Chairman, it should be no surprise to you that we are disappointed by the fact that the Veterans' Canteen Service has not had a full-time director since March of 1985. We would only ask the VA to remedy this situation.

This concludes my statement. I will be happy to respond to any questions you may have.

Department of Medicine
and Surgery

Washington D.C. 20420



SEP 2 1983

In Reply Refer To:

Honorable G.V. (Sonny) Montgomery
Chairman, Committee on
Veterans Affairs
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

On September 19, 1985, your Subcommittee on Oversight and Investigations held a hearing on the Veterans Canteen Service.

As requested during the hearing, this letter provides additional information about our plans to reorganize the Veterans Canteen Service.

I have recommended a conceptual plan and the Administrator has approved the establishment of an implementation task force to work out the various operational details of the plan.

The plan calls for:

- o The closure of the three VCS field offices, with their functions assumed by Central Office and Field elements
- o The establishment of a Field Liaison Division to provide VCS Central Office direction, coordination and accountability for VCS canteen operations
- o Greater participation by VA medical center management in the operation of medical center canteens
- o Assumption by Canteen Chiefs of a greater role in management responsibilities and accountability for the operation of the canteens
- o Abolishment of the present VCS Personnel and Administration Division, with most of its functions being transferred to the VA Office of Personnel
- o Retention of the management of VCS funds and personnel ceiling by the Director, Veterans Canteen Service
- o The establishment of a financial manager position that will administer the Canteen Service revolving fund, its budget and its financial operations

"America is #1—Thanks to our Veterans"

2.

Honorable G.V. (Sonny) Montgomery

- o The establishment of a Program Planning and Evaluation Staff to develop and coordinate service planning and evaluation activities
- o The VCS Audit Staff, while remaining organizationally within the VCS, will report directly to the Director of Administration.

The adoption of this plan should cost-avoid substantial monies in VCS recurring expenditures. The new organization would provide direct incentives and means to enable Canteen policies and practices to be aligned more closely with business activities in a medical environment. In addition, the new organization would impose greater accountability and responsibility on VA medical center directors for the operation of their respective canteen. Thus, this reorganization should be in the best interests of the Veterans Canteen Service, the Department of Medicine and Surgery, and those whom the VCS serves.

I will keep you informed as this reorganization initiative continues.

Sincerely,


JOHN A. GRONVALL, M.D.
Acting Chief Medical Director

STATEMENT FOR THE RECORD
 R. DENNIS SMURR, ASSOCIATE LEGISLATIVE DIRECTOR
 PARALYZED VETERANS OF AMERICA
 FOR THE
 SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS
 OF THE
 HOUSE COMMITTEE ON VETERANS' AFFAIRS
 CONCERNING
 VETERANS' CANTEEN SERVICE
 SEPTEMBER 24, 1986

Mr. Chairman, on behalf of the members of the Paralyzed Veterans of America, I appreciate this opportunity to share with you and the Members of the Committee our concerns regarding the Veterans' Canteen Service (VCS).

First, regarding the issue of contracting out certain VCS functions, PVA is adamantly opposed to any attempt to contract out any of the functions presently being provided by the Veterans' Canteen Service. We view the mere suggestion of conducting an OMB Circular A-76 cost analysis on this particular segment of the Veterans Administration to be totally inappropriate and completely counterproductive to the mission which VCS has faithfully and efficiently carried out since its inception in 1946.

The primary mission of the VCS is to make available, at reasonable prices, merchandise, supplies and services essential to the comfort and well-being of veterans in VA medical centers. A secondary mission has been to provide limited canteen services to employees of the VA and to relatives and other persons visiting the veterans being treated in VA medical centers. In 1970 a third mission was assumed by the VCS - that being to provide reasonably priced supplementary food services to VA employees, volunteers and visitors, as well as to the veteran patients. This food service is provided by the combined use of vending machines and cafeteria-style food centers. In

addition, many canteens provide certain patient care services through the scheduled visits of the "ward cart" to the bedside of nonambulatory patients. This is an essential service to many veterans, especially spinal cord injured veterans, who by the nature of their hospitalization often times never leave their beds, let alone the ward. It should also be remembered that the VA canteens assist greatly in the socialization process, allowing patients to socially interact with one another and to entertain or be entertained by their hospital visitors.

From a financial perspective, the VCS is "self-sustaining." In its 40 year history, the VCS has reimbursed the VA nearly \$60 million in rents and utilities and has contributed more than \$12 million in miscellaneous receipts to the U.S. Treasury -- it has not cost the federal government anything to operate. It pays all of its own expenses, including salaries and wages, employee benefits, utilities and rent, maintenance and repair costs, and all other operating expenses. It operates from a common VCS revolving fund with the profits of larger canteens offsetting the cost of maintaining those smaller canteens, located more remotely and doing less business. This offset arrangement is an integral and important aspect of the VCS structure and one that would definitely be lost if contracting out were to be implemented.

We have the General Accounting Office (GAO) report about the problems encountered at military bases which have contractor-operated stores. Many of these stores are plagued by pricing irregularities, repeated allegations of fraud, and contract abuse. In addition, there are certainly other problems associated with the contracting out of essential services -- problems such as strikes, the lack of control and/or concern for the veteran patient, the overall availability of services, and the potential increase in prices and/or possible decreases in service to our hospitalized veterans.

Furthermore, if food service contracts were granted, many of the smaller and more remotely located VA medical center canteens would not attract private contractors without a government subsidy, because of the limited or non-existent profit potential. Therefore, what is now a profitable enterprise for the VA would become an additional expense, not just for the government, but for the veteran as well. The only beneficiary to this process of contracting out would be those private entrepreneurs who succeed in obtaining

a food service contract for the captive population working and/or residing in some of our larger VA medical centers.

As to PVA's concerns regarding the reorganization of the Veterans' Canteen Service, as proposed by the VA Central Office in their letter to the Committee dated September 2, 1986, we question not only the intent, but also the legality of such a proposal. It must be remembered that the VCS is mandated by Public Law 636 of the 79th Congress (Title 38, USC, Chapter 75) to "... function as an independent unit within the Veterans Administration and shall have exclusive (emphasis added) control over its activities including sales, procurement and supply, finance, including disbursements, and personnel management ..." The proposal to close the three VCS field offices, abolish the VCS Personnel and Administration Division, and involve the individual VA Medical Center Directors more into the day-to-day operation of the canteen services, may sound like a cost effective endeavor, but it strikes at the very essence of the VCS's ability to operate independently within its host organization.

We can appreciate the desire of each VA Medical Center Director to exercise control over all the programs, services, and functions of their respective hospital setting, but we cannot condone such an involvement in VCS activities if it means the demise of its operational and structural integrity. PVA is of the opinion that many of the concerns expressed by both the VACO and the VA Medical Directors could be resolved, not by the proposed reorganization, but by simply restoring the needed manpower and leadership, which has been lost by the VCS over the past several years.

We have heard the testimony of former, high-level VCS employees. They have expressed their concern for the proposed reorganization plan, but more importantly, they have given us a very valuable insight into the ways in which the VACO, has over the years, diluted both the mission and the integrity of the Veterans' Canteen Service by imposing employment ceilings, reducing pay grade classifications, and most recently by submitting the Service to an A-76 study, just to name a few. PVA values the testimony presented by these dedicated individuals, and we wholeheartedly believe they

have given the Committee a much better assessment of what the VCS has been, what it is today, and what it can be if the VACO would stop playing games and allow the Service to function as intended.

In conclusion, we would agree with Mr. Walter Nelson's recommendation of September 24, 1986, to have the GAO conduct an impartial analysis of the Service to ascertain the merit and the need for this proposed reorganization of the VCS. As to the matter of contracting-out, PVA cannot condone the VA's action in that the VCS operates from a nonappropriated fund which does not come under the real authority of the A-76 process.

Mr. Chairman, that concludes PVA's testimony regarding the Veterans' Canteen Service. We applaud you on your efforts to maintain the integrity of the VA health-care system. We trust that you and others of the House Committee on Veterans' Affairs will see the VCS as being an integral part of each VA medical center and that you will seek ways to preserve its integrity as well.



Office of the
Administrator
of Veterans Affairs

Washington DC 20420



Veterans
Administration

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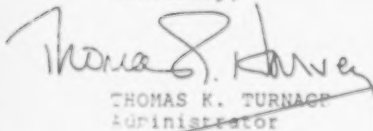
Honorable G. V. (Sonny) Montgomery
Chairman, Committee on
Veterans' Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed please find the Agency's responses to the questions which you forwarded on behalf of the Honorable Elwood Hillis and yourself for the September 24, 1986, hearing by the Subcommittee on Oversight and Investigations on the Veterans Canteen Service.

Thank you for the opportunity to provide this additional information for the record.

Sincerely,

 Deputy Administrator For
THOMAS K. TURNAGE
Administrator

Enclosure

CONGRESSMAN HILLIS

Question: 1. If it were decided to do so, what would be the financial effect of eliminating sales of tobacco products in canteens?

Answer:

- o The income from cigarette sales has made it substantially possible for the VCS to maintain reasonable prices, adequate hours of operation, defray the cost of operating approximately 70 small canteen and still pay its bills while providing uniform service throughout the VA system.
- o Nation-wide prohibition of the sale of cigarette and tobacco products in VCS retail stores will necessitate reductions in FTEE and hours of operation. In addition, it is entirely reasonable to anticipate that increases in selling prices of all items in the retail store and also in the food department would be necessitated.
- o The VCS's actual net income for FY 1985 was \$3,839,149 (including sale of cigarette and tobacco products); however, without tobacco income, there would have been a loss of \$2,858,830.

Question: 2. On page 3 of your statement, what market factors are you referring to, and what VA medical center and customer needs are you referring to?

Answer: The statement refers to local market conditions such as price competition from chain stores and local needs of patients and other authorized customers such as hours of canteen operations, merchandise mix and menu selection. (See memorandum from ACMD for Administration to Chief Medical Director, dated October 23, 1985.)

Question: 3. How much are the A-76 cost comparisons and reorganization going to cost VA?

Answer: Although no actual costs have been computed for these A-76 in-house studies, they have proven to be time-consuming and thus, costly in terms of personnel hours. However, the costs of these studies should be absorbed by increased productivity, whether or not the food service activities remain in Government or are awarded to private industry.

Question: 4. Have any of these cost comparisons been completed, and if so what are the results?

Answer: No cost comparisons have been completed to date. All of the information necessary to complete the cost analysis is not presently available.

Question: 5. Will the establishment of a VCS planning and program evaluation staff and a field liaison division require new employees, or will employees simply be transferred from other positions?

Answer: The establishment of these divisions will entail the filling of new positions. Every effort will be made to fill these positions with qualified VCS employees. However, if the required expertise is not available within VCS, it would be necessary to recruit from outside VCS.

Question: 6. If food service is contracted out, how will the Department of Medicine and Surgery ensure that contractors are responsive if quality and service are not satisfactory to customers?

Answer: At VA Medical Center where food service is contracted out, the Canteen Service Management will maintain control of the overall procurement, preparation and provision of food. The contractor will provide the labor necessary for the performance of these functions. Also the Medical Center's Contracting Officer will be responsible for ensuring that the contractor conforms to the VA's quality control program as detailed in the contract.

CONGRESSMAN HILLIS

Question: 7. We learned last year that the VA in effect subsidized canteen service about \$2.8 million in 1984 because the VA wasn't charging enough for space and utilities. Has this happened in other years, and if so, please provide information about it for the record.

Answer: Title 38 USC, Chapter 75, instructs the Administrator of Veterans Affairs to furnish VCS with such space, buildings, structures, services and utilities necessary for its use. It also states that the VCS shall pay annually "reasonable charges" to the VA for such facilities and services. The Administrator shall determine what constitutes reasonable charges and may reduce or waive such charges whenever payment would impair working capital required by VCS.

In 1983 the VCS payment to the VA was set at 1 1/2 percent of VCS's gross annual sales. This was done for a variety of reasons, including rapidly escalating fuel costs and to bring the charges more in line with those paid by contractors engaged in employee feeding. Before 1983, the payment rate fluctuated in accordance with a series of complex formulas applied to individual medical centers.

The new rate simplifies the computation of the charges and the method of payment: this is now made by VCS Central Office to the VA. Before, it was made by individual medical centers. (See memorandum of ACMD for Administration to Chief Medical Director, dated January 12, 1982.)

Question: 8. Why didn't the VA require canteen prices to be raised to the extent necessary to obtain full reimbursement for utilities and space?

Answer: The VA has charged VCS rental rates under the standards prescribed by Section 4203 (3). The Administrator has determined such rates to be reasonable.



**Veterans
Administration**

Memorandum

Date: October 23, 1985
To: Chief Medical Director (10)
THRU: Director for Operations (10B)
From: ACMD for Administration (13)
Subj: Reorganization of the Veterans Canteen Service (VCS)

I. Purpose

The Assistant Chief Medical Director for Administration (13) charged a special task group with evaluating the current Veterans Canteen Service (VCS) organizational structure and recommending changes which would be conducive to more efficient and effective operations in the future. To accomplish these tasks, analysis was conducted to provide specific topical recommendations as follows:

- appropriate organizational structure within DM&S Central Office;
- appropriate organizational structure at the field level; and
- staffing needs and administrative processes necessary to accomplish the expected mission of the VCS.

II. Methodology

A six-member task group consisting of representatives from Central Office and the field, conducted the analysis as follows:

- Extensive review of program related documents, including legislation, relevant studies, policies, and manuals.
- Data collection through personal interviews conducted with individuals at different organizational levels within the VCS who have direct or indirect involvement in the program in Central Office;
- Personal interviews with VCS field personnel, conducted on-site at the Denver Field Office, the Atlanta Field Office, the St. Louis Finance Center; and meetings and discussions with VCS headquarters staff in Washington; and
- Telephone interviews with Chiefs, Canteen Service, at a representative sample of medical centers of varying size, complexity and mission.

The scope of these contacts, including more than 40 personal interviews, in conjunction with reviewing a series of secondary source and historical documents, provided the task group with good baseline knowledge of the program's structure and organizational relationships, management and operations.

2.

III. Discussion

The existing VCS organization is detailed in the attached organizational charts for the Central Office component (see Addendum 1), and the three field offices located in Somerville, Atlanta, and Denver (see Addendum 2). Analysis of the organization, structure, management and operations of VCS revealed four areas of serious concern:

--Program Management and Accountability;

--Supervisory Layering;

--Communication; and

--Medical Center Interface

These major concerns and observations are discussed below, in the same order:

Program Management and Accountability

The traditional VCS organizational arrangement and its normal approach to program management offer only limited incentives for innovation or creativity, and positively restrict opportunity for substantive change. This fact is especially true at the VAMC level where Canteen Chiefs are particularly impacted. Essentially any significant alteration in marketing, product selection or mix, decor, advertising, ordering, inventory management, cash management, local operating policy, etc., must be approved from above. The Canteen Chief is not a local "businessperson" in the usual sense. There is a broadly held perception that such matters must be set somewhere above--within the VCS hierarchy--and insufficient recognition that the VAMC Director or DM&S operational components play any role at all in such decisions. Many VAMC Directors themselves are inured to this arrangement, but many others have expressed serious concern over their absence of involvement in VCS decision-making, much of which is ultimately affecting medical center operations, including but not limited to labor-management and employee relations. This isolation of management and operations creates uncertainty of accountability and friction at the local, regional and Central Office levels; there have been recurring instances of such problems.

Supervisory Layering

Based on the considerable portion of assigned FTEE associated with management (approximately 90 headquarters and field office employees, plus 73 FTEE at the VCS Finance Center), there are redundancies and considerable layering of supervision within the current organization. The VCS differs from other service-level organizations within the Department of Medicine and Surgery in that the Director exercises direct line authority over field functions. The excessive supervisory structure, however, has served to strain relationships, complicate communications, and compartmentalize responsibilities of the various intra-service issues, especially as they relate to medical center field operations.

3.

Communication

The need for effective communication in this program is paramount. The complex organizational relationships, the independent nature of the VCS, and the unfamiliarity of medical center staff with VCS internal procedures all combine to demand that maximum emphasis be placed on ensuring that communication channels at all program levels be open and that information be disseminated clearly, consistently, and reliably. As a business enterprise, concerned with generating revenues, the VCS must respond quickly to the sensitivity of the marketplace, which requires highly effective and continuing communications within the organization.

The analytic process revealed a number of inadequacies in this area:

- Much of the direction issued to field Canteen Officers is reactive rather than proactive. This approach does not create reliable and consistent communication based on program planning or evaluation of program effectiveness.
- VCS headquarters is perceived by some Canteen officers as inaccessible due to the supervisory structure in place.
- VCS Field office directors and Canteen chiefs are often provided inadequate opportunity for participation in the national decision and policy-making process which results regularly in changes or additional requirements concerning program operation.
- Poorly defined areas of responsibility cause problems in accountability and overlapping responsibility in administrative and functional areas.

A major goal of the VCS at its inception was "independent operations." However, the VCS must be an integral part of medical center operations especially in the food service area, which requires direct and better communicative mechanisms at all levels of program management and operation, but especially at the local level.

Medical Center Interface

The task group acknowledged a very active interest on the part of the previous Director, and now the current Acting Director, VCS in promoting closer informal ties to local management than have occurred historically between the VCS and medical centers. They did not see in VCS Field Office directors as much inclination to be communicative and responsive to VAMC directors. The current organization places direct supervision of canteens with the Field Office directors; day-to-day supervision is delegated to a group of retail stores specialists ("field supervisors") who carry out their responsibilities for a group of canteens through reviewing reports, visiting periodically, and conducting telephone and mail communications. Most of these supervisory mechanisms are carried out only peripherally involving the Medical Center directors.

4.

Field Office supervisors have virtually no information or knowledge bases concerning medical center philosophy, mission or history or general medical care policy. Their principal focus of attention is to the canteen's sales and inventory levels, local intra-VCS supervisory problems, and career development within VCS of Canteen chiefs, career interns (trainees), and other VCS employees. These relationships of exclusivity and independence often engender friction which is counterproductive to VCS's need to be responsive to local medical center directors and staff.

Conclusions

On considering all the information made available or discerned, the task group reached the following conclusions concerning the Veterans Canteen Service:

- 1) The consolidated VCS Finance Center in St. Louis appears well-managed and relatively efficient for the limited tasks it performs. Presently, the Center is converting a manual accounting system to a computerized one which will result in further operational improvements. Accurate, timely accounting is a crucial function to the VCS, so a finance center activity should be retained at least for the present. As the automated system is further transitioned to full operations, however, a detailed staffing study should be performed to ensure the appropriate mix of staff is deployed. The St. Louis site justification seemed weak to the task group, but the group did not attempt to determine its overall appropriateness, given the expense VCS incurred in consolidating at that location, and the recency of this decision (1982).
- 2) The VCS audit staff is not justified. The financial audit function is justified but should be conducted primarily by the VA Inspector General, based on audit guidelines negotiated with, and approved by the Director, VCS. The VCS should retain a skeletal audit function to address emergencies and special reviews needed by the Director, VCS. The current routine audit process is "flat." The Director, VCS gains virtually no insight from this function.
- 3) Field Office Directors and field supervisors cannot perform the expected full range of duties normally defined as "supervisory." This is attributable to functions of distance and span of control, and effects of split loyalties of canteen chiefs between field office and central office management.
- 4) Medical Center Directors, in general, accept no unilateral responsibility or accountability for local Canteen operations or for direct supervision of Canteen chiefs. Local Canteen managers are isolated from most VAMC operational issues and virtually all policies, and *vice versa*. Canteen chiefs have little or no opportunity at career development beyond the Canteen Service.
- 5) The VCS central office personnel management staff is not justified operationally and is redundant, in view of similar elements elsewhere in the Department and Agency.
- 6) VCS planning at the central, regional and local levels is inadequate or absent.

5.

Tactical planning is generally restricted to short-term, mundane issues relating mostly to cash and inventory management, and to VCS historical policy.

7) VCS marketing efforts are outdated, as compared to other business organizations. There is only cursory effort in examining the veteran/employee/visitor customer interests; few new product tests or critical product evaluations; or other contemporary forecasting techniques.

8) No single VCS officer carries total responsibility and accountability as the principal VCS financial manager. In a \$200 million business endeavor this fact is disturbing. VCS should employ a Controller position to perform these absolutely essential functions. This is not a function appropriately performed by the Director, VCS, who must manage dollar, human, material and policy resources. VCS needs a full-time Controller, reporting to the Director, to manage the Service's money.

9) The Field Office supervisor presence is anachronistic and, sometimes frictional to its host's basic organizational design. Loyalties of the Canteen Chief are divided. VAMC Directors see themselves as prevented from supervising the Canteen. Field offices cannot supervise in the usual sense, and could not, without a massive resource application which is financially unjustified.

IV. MAJOR RECOMMENDATIONS

The overarching problem identified from this organizational review was the tendency to excessive supervisory layering and redundancy in oversight functions. The conditions contribute directly and indirectly to many of the other problems identified in the report. Based on these findings the following recommendations are made:

- Abolish the three existing VCS Field Offices at Denver, Somerville, and Atlanta.
- Abolish the audit function as currently structured and staffed within the organization.
- Create a new VCS organization as outlined in Addendum three of this report. Addenda 4(a)-4(i) outline the immediate cost avoidances realized from this reconfiguration (\$1.085 million recurring).

There must be a clear definition of management authority and responsibility within Central Office over the program itself. The line of authority should be dictated by traditional VA line/staff relationships between Central Office programs and Medical Center operations. The need to eliminate existing, overlapping responsibilities in administrative and functional areas make mandatory a basic reconfiguration of the Veterans Canteen Service Central Office organization. Without a restructuring of the headquarters organization, optimal use of resources and improved efficiency and effectiveness cannot be realized.

V. ADMINISTRATIVE RECOMMENDATIONS

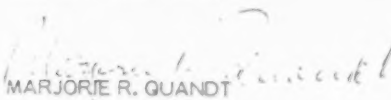
Certain management improvements should be initiated in conjunction with the improved organization structure if problems within Veterans Canteen Service are to be corrected. Implementation of the following actions is strongly recommended as a means to maximize operational effectiveness and efficiency:

- Establish clearly defined (measurable) short-term and long-term goals and objectives for the program.
- Establish a system of evaluation to monitor closely overall program performance and progress towards achievement of short and long-range goals and objectives.
- Develop restructured operational policy outlining administrative mechanisms required to support needs of the program and the Department.
- Incorporate, where appropriate, criteria into the performance appraisal process of Medical Center Directors to encourage improvements in and program support to VCS.
- Examine and redefine, as appropriate, the role of Canteen Officers in the operation of the VCS program, as well as their relationship to local medical center management.
- Assure that Individual Development Plans and annual performance plans for Canteen Officers are specifically oriented to DM&S management issues, supervisory training, and personnel and fiscal management policies.
- Develop an implementation plan to accomplish integration of the program into conventional VAMC operations. A prepared transition will eliminate or minimize some of the problems associated with directing this program from a centralized base. The implementation plan should clearly identify lines of authority, both operational and program management.

7

V. SUMMARY JUSTIFICATION

The organizational structure recommended and the management initiatives identified are critical to the success of the reorganization. The reorganization is viewed as an opportunity to establish an organization structured to meet the needs and requirements of a proactive program of Canteen management in a constantly evolving health care delivery system. The structure recommended combines the best features of organizational restructuring and improvements to organizational effectiveness and efficiency consistent with retaining fiscal partitioning and the non-traditional program characteristics of the VCS versus other DM&S elements. Pending your approval and contingent on the Administrator's concurrence, an implementation task force will be established to carry out the plan at the earliest possible date. I anticipate all necessary actions to effect this plan will be completed within 90 days.


MARJORIE R. QUANDT

Attachments

APPROVE:

JOHN W. DITZLER, M.D.
Chief Medical Director



Memorandum

To: Chief Medical Director (10)

Subject: Canteen Occupancy Expenses

Date: JAN 12 1982

1. I am requesting your approval of a change in the method by which the Veterans Canteen Service's (VCS's) reimbursement to the Department for space, utilities, maintenance and repair is determined. The change would stabilize the VCS payment for these occupancy expenses at 1-1/2% of gross canteen sales.
2. Existing legislation and VA policy specify only that VCS pay "reasonable charges" for rent, utilities, maintenance and repair. The actual computation of these charges has been handled administratively. In recent years, a series of complex formulas contained in Administration Letter IL 13-74-23 have been used. For a variety of reasons, most notably rapidly escalating fuel costs, these charges have become excessive and "unreasonable," particularly when compared to those paid by contractors and others engaged in employee feeding.
3. Excessive occupancy charges were the reason for inclusion in the VA's legislative program of a provision to fix canteen occupancy payments on a percentage of sales basis. The provision was fully supported by the DM&S Policy Council and your Field Advisory Group. Subsequently, we were advised by the VA's General Counsel (023) that such a change could be made administratively under existing legislation.
4. By fixing the payment at 1-1/2% we can substantially improve the level of VCS cafeteria service. Some costs would also be reduced in Engineering Service by eliminating the complex calculations now required. Resulting benefits in improved employee morale and reduction in lost work hours from employees who travel off station to eat will accrue throughout the medical system as a result of this change.
5. VCS will still operate at a disadvantage when compared to other employee feeding activities in government buildings, as VCS will continue to bear the substantial costs of cafeteria equipment, normally provided to a contractor. We propose that this change take effect beginning with Fiscal Year 1983. It is anticipated that the cost to the Department will be more than offset by the upcoming elimination of gratuitous feeding for outpatients.

Marjorie R. Quandt
MARJORIE R. QUANDT
ACMD for Administration (13)

Approve/~~Disapprove~~

Donald L. Curtis
DONALD L. CURTIS, M.D.
Chief Medical Director

CONGRESSMAN HILL'S

Question: 1. It has been suggested in the American Legion's statement that the reorganization of the Veterans Canteen Service may not be in accordance with the law. Please comment.

Response: The proposed organization of the Veterans' Canteen Service (VCS) does raise several difficult legal issues, including questions regarding whether any reorganization will comply with the applicable requirements of title 38, United States Code. Section 4208 of title 38 requires that the VCS be operated as an independent entity within the VA and retain exclusive control over its activities.

The VA's General Counsel's office will review each proposed reorganization plan to ensure that it is consistent with the requirements of title 38. We believe that one of the most important elements of that review will be to carefully examine any proposed reorganization to ensure that it is consistent with section 4208. However, no proposed reorganization has been implemented. The reorganization plan earlier described to the Committee in the Agency's testimony of September 24, 1986, is still being reviewed by the Administrator.

Question 2: The American Logistics Association has raised several legal questions about contracting out of canteen service. They are:

a. Will contracting out result in imposition of sales and use taxes on canteen operations as to purchases by canteen operators, the operator's use of government owned personal property, and sales?

Answer: VCS contractors would not be exempted from any state or local sales or use taxes. Under the Buck Act, sections 105(a) and 107(a) of title 4, United States Code, states may levy and collect sales or use taxes in Federal areas so long as the Federal Government's immunity is not affected. Bullock v. W. & W. Vending and Food Service of Texas, Inc., 611 S.W.2d 713 (Tex. Civ. App. 1981) (Army and Air Force Exchange independent contractor); Reynolds v. South Carolina Tax Commission, 251 S.C. 298, 162 S.F.2d 259 (1960) (Marine Corps exchange independent contractor); Hill v. Joseph, 205 Misc. 441, 120 N.Y.S. 2d 348 (Sup. Ct. 1954) (Ellis Island concessionaire). The incidence of such a tax would not fall on the VA but on the seller (concessionaire) or purchaser (veteran, employee, or visitor), and thus the Federal Government's constitutional immunity would not be affected. See, e.g., United States v. District of Columbia, 669 F.2d 738 (D.C. Cir. 1981); United States v. Town of Windsor, 496 F. Supp. 581 (D. Conn. 1980).

CONGRESSMAN HILLIS

We note, however, that the proposals to contract out the VCS' food retail operation affect only the preparation of food. Under the proposed contracting out process, the VCS will itself purchase all food to be served in Veterans Canteens and provide it to VCS contractors for preparing and serving the food at VCS Canteens. The VCS would remain responsible for collecting revenues on the sale of the food to patrons of the Canteens. Consequently, we believe that the Federal Government's immunity from State and local taxation would preclude the imposition of any taxes on the sale of food in Canteens.

Question: b. Would the Robinson-Patman Act, which prohibits certain price discrimination, apply to suppliers of canteens if they are operated by contractors?

c. Would a contractor operating canteen services be subject to the Sherman Act, which prohibits certain restraints of trade?

Answer: The VA has a policy to use the competitive acquisition procedures in the Federal Acquisition Regulations (FAR's) to acquire canteen services from contractors. Any contractor doing business with the VA would be subject to all anti-trust laws, such as the Sherman Anti-Trust Act, 15 U.S.C. sections 1-7, and the Robinson-Patman Price Discrimination Act, 15 U.S.C. 13 et seq., laws intended to ensure that contractors operate competitively in their markets

Question 3: Does OMB circular A-76 actually apply to the canteen service?

Answer: No, it does not.

CONGRESSMAN MONTGOMERY

Question: 1. This VA witness appearing before this Subcommittee a year ago, made a commitment that the VA would keep this Committee and the service organizations apprised of this reorganization. The first we heard regarding it was on September 3, 1986 in a letter from the Acting CMD. This letter said very little except a conceptual plan had been recommended and the Administrator had approved an implementation task force. The plan, as described in this letter, raises many questions about the reorganization. For example:

Question: 1A. Where will the field liaison division be placed organizationally?

Answer: The field liaison division will be placed in VCS Central Office in Washington.

Question: 1B. Has there been any departmentwide studies that back up the fact that medical center management feels a need for greater participation in the operation of canteens? (If the answer is yes, please provide a copy of the study for the record.)

Answer: On September 12, 1985, the Department conducted a survey of the opinions of VA Medical Center Directors on the Canteen Service. In response to question 12 of the questionnaire, which was an open-ended question, the most-frequently-cited change they would make given the opportunity was, "Give the medical center more control of the canteen." (Report of study is supplied for the record.)

Question: 1C. Transfer of the VCS Personnel and Administration Division functions to the Office of Personnel, certainly on the surface, would appear to be contrary to Section 4208 of Title 38. Would you please comment on this?

Answer: This issue is discussed in some detail in a recent General Counsel analysis of the proposed VCS reorganization (attached sheets). Responsible officials are reviewing the components of the reorganization plan in light of that analysis.

Question: 1D. Will the VCS furnish any personnel ceilings or funds to the functions transferred to the Office of Personnel or any other place?

Answer: See response to question 1C.

Question: 2. This same VA witness indicated some 66 studies of the VCS food service operations would be completed by this time and bids opened. I gather by this statement none of these have been opened. Is that the case?

Answer: Yes, there have been no bid openings to date. The 66 figure has been revised to 50 food services to be studied in calendar year 1986 and an additional 24 in calendar year 1987.

Question: 3. Why the delay and why hasn't the committee been notified of this as the witness committed the VA to do?

Answer: The delay to extend all bid openings is the result of a directive from OMB which directs all federal agencies to employ new retirement factors for employees hired after December 31, 1983. These factors will be to used in developing A-76 in-house cost estimates. The VA is remiss in not keeping the committee informed of the events that impact the VCS A-76 process.

Question: 4. Did the sequestration of the VA Canteen revolving fund in the FY'86 Sequestration Order required by the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm, Rudman, Hollings Act) reduce the federal deficit?

CONGRESSMAN MONTGOMERY

Answer: The sequestration order had the effect of returning VCS monies to the U.S. Treasury. This Agency is unaware of the disposition of these monies thereafter.

Question: 5. What is the operational impact of this sequestration on the Veterans Canteen Service?

Answer: The impact in FY 1986 was a reduction in the goods available for sale in our canteens, a deferral of equipment acquisitions and a freeze on hiring. All three will have long term effects on the quality of service provided and were undertaken to reduce obligations as required by OMB. The impact in FY 1987 is that with the funds now having been transferred to the Treasury, the VCS has \$8,104,000 less capital with which to operate. We had intended, in FY 1987, to rebuild inventories of merchandise for resale, return to full authorized FTEE levels, purchase needed equipment and embark on development and acquisition of computerized information systems. With eight million dollars less to work with in the revolving fund, we are placed in the precarious situation of being underfunded.

Question: 6. Will the funds be withdrawn from the Canteen revolving fund as a result of the sequestration order?

Answer: Yes, with the approval of the Director, Office of Budget & Finance of the Veterans Administration, \$8,104,000 was transferred from the Canteen Service revolving fund to the Treasury effective September 30, 1986.

Question: 7. Since the only way to reduce obligations in the revolving fund is to reduce inventories and sales, wouldn't your FY '86 profit be reduced?

Answer: Ordinarily, yes. However, in order to meet the total reduction of obligations as imposed by OMB, the Canteen Service also reduced other expenses, primarily through reduced salary costs brought about by a hiring freeze and by deferral of equipment procurement. The total of all the actions taken to reduce obligations was sufficient to offset the FY 1986 profit reduction we would normally have experienced. Consequently the Canteen service's net income for FY 1986 was not reduced.

Question: 8. Would the withdrawal and deposit of Canteen revolving funds to miscellaneous receipts of the Treasury amount to a doubling of the adverse impact on the VCS? Would this not mean you will provide less service and higher prices to veterans?

Answer: The withdrawal of \$8,104,000 from the Canteen Service revolving fund, in addition to a reduction of inventories in the same amount, does indeed amount to a doubling of the impact on VCS. Consequently our inability to build up inventory levels in FY 1987 and modernize canteens will seriously impair our attempt to maintain a high level of service. The loss of those monies from our revolving fund leaves the fund in a severely depleted condition. This could necessitate an increase in prices to offset the reduction in revenues resulting from the availability of fewer goods for sale and to meet the cost of fixed expenses associated with the operation of the service.

Question: 9. What are the plans for the local utilization of VCS employees, should any Canteen food services be contracted out as a result of the OMB Circular A-76 studies?

CONGRESSMAN MONTGOMERY

Answer: Canteen employees will be offered the right of first refusal in the event a private contractor is the successful bidder. While this is not a guarantee, it does offer an opportunity for continued employment.

Question: 10. If such contracts are made and contract employees go out on strike, who would operate the VCS food operations or would it be entirely shutdown? (This situation has occurred in cases where the Army and Air Force Exchange Service has contracted out its food service operations.)

Answer: The contracting company is still obliged to provide food service activities under the terms of the contract even in the event of a strike by its own employees. If the contractor defaults entirely and does not provide services, then the VAMC would have to seek another means of operating the canteen or shut it down.

Question: 11. Will one of the qualification requirements for the selection of the new Director, Veterans' Canteen Service, include extensive field experience in VCS operations? If no, why not?

Answer: The VA announcement advertising the position of Director, Veterans Canteen Service (Announcement No. DM&S-SES-86-3) states: "To be qualified, applicants must possess all of the following qualifications needed to perform the described duties. These qualifications typically would be gained through progressively responsible management/executive level assignments such as Director, Assistant Director, Field Office Director, supervisory and managerial assignment in the Veterans Canteen Service or managerial positions in large multi-unit retail establishments requiring similar knowledges, abilities and responsibilities; or significant financial management or procurement experience in a large organization with multiple operating elements. Assignments would typically have included experience at GS-15 or equivalent level." Thus, while experience in the Canteen Service certainly contributes to an applicant's suitability for the position, applicants could be considered qualified by reason of experience gained outside the Canteen Service.

Question: 12. It has been reported that a study of the Canteen operations was made principally by a group of college students. Is this so? (If yes, please furnish a copy of this study to the Committee.)

Answer: A group of senior students at the Wharton School of Business conducted a study of various aspects of VCS operations in 1985 under the direction of Doctor Charles Goodman, Professor of Marketing at Wharton. They submitted a report to the Acting Director, VCS, on December 11, 1985. (Report supplied for the record.)

Question: 13. At the September 24, 1986 hearing, Counsel to the Subcommittee asked the Deputy Administrator about the "extensive examination" of the Canteen Service by two distinguished management consultants." The Deputy Administrator was to furnish the Subcommittee with a copy of this "extensive examination" if in fact, it exists. To date, no further response has been received. Does such a study exist and, if so, when may we expect to receive a copy?

Answer: The reference was to the review of VCS conducted by Doctor Charles Goodman of the Wharton School and Doctor Ghosh of New York University. Based on review of materials relating to VCS each consultant submitted a report to the Assistant Chief Medical Director for Administration in 1985. These reports were submitted for the record prior to the September 19, 1985 hearing on VCS.

VETERANS CANTEEN SERVICE

Results of a Survey of VA Medical Center Directors onVeterans Canteen Service (VCS)

On September 12, 1985, a survey of VA Medical Center Directors was conducted by the Department of Medicine and Surgery to obtain their opinions on several aspects of the Veterans Canteen Service. (See attachment—Telegraphic Message sent to all VA Medical Center Directors.) The Directors were asked to rate their Canteen Service on a 5-point scale, Excellent to Poor.

Below are the number of Directors' responses relating to each item in the questionnaire.

NUMBER OF RESPONSES

<u>Item</u>	<u>Excellent</u>	<u>Superior</u>	<u>Good</u>	<u>Poor</u>	<u>Very Poor</u>
Quality of Food Service	29	53	56	10	-
Food Hours Satisfaction	38	37	54	14	-
Food Variety	24	54	57	9	-
Responsiveness to Customer	35	51	43	3	-
Employee Attitudes (Food)	42	54	39	7	2
Retail Hours	29	45	65	5	2
Appropriateness of Goods	36	56	50	2	-
Appropriateness of Mix	37	60	44	2	-
Product Responsiveness to Employee Needs	36	55	49	3	-
Product Responsiveness to Patient Needs	47	58	35	2	2
Employee Attitudes (Retail)	62	50	26	4	-

It is clear from the responses that most Medical Center Directors rate their canteens very highly on all items. For example, 29 Directors thought the quality of the food service was excellent, 53 thought it was superior and 56 thought it was good. Only 10 thought it was poor. Similar response patterns can be seen for the other items.

Question 12 in the questionnaire was open-ended asking the Directors what changes they would make if given the opportunity.

The responses grouped by frequency were:

1. Give the Medical Center more control of the canteen : 35
2. No changes needed : 20
3. Improve food operations and management : 19
4. Improve variety in retail store : 9
5. Improve pay of food service workers : 8

Other less-frequently cited issues were:

1. Expand hours of canteen operations
2. Give canteen more space and better equipment
3. Eliminate sale of tobacco products
4. Retain field offices

TELEGRAPHIC MESSAGE

NAME OF AGENCY VACO WASH D C		PRECEDENCE ACTION P INFO.	SECURITY CLASSIFICATION
ACCOUNTING CLASSIFICATION		DATE PREPARED 9/12/85	FILE
FOR INFORMATION CALL			
NAME JOHN BRADLEY		PHONE NUMBER 389-2706	TYPE OF MESSAGE ☐ SINGLE ☐ BOOK ☐ MULTIPLE ADDRESS
THIS SPACE FOR USE OF COMMUNICATION UNIT			
MESSAGE TO BE TRANSMITTED (Use double spacing and all capital letters)			
TO: ALVAMC OO/SUBJ: VETERANS CANTEEN SERVICE (VCS) 1. ON 9/18/85, A GENERAL OVERSIGHT HEARING CONCERNING THE OPERATIONS OF THE VCS WILL BE HELD BEFORE THE HOUSE VETERANS AFFAIRS COMMITTEE. THIS IS THE FIRST SUCH HEARING IN THE NEARLY FORTY YEAR HISTORY OF THE VCS. 2. TO PREPARE ADEQUATELY FOR THIS HEARING, WE NEED YOUR GUIDANCE AND ADVICE ON SEVERAL AREAS OF CONCERN, OR ITEMS OF PROBABLE INTEREST TO THE COMMITTEE. 3. PLS. ANSWER EACH QUESTION WITH THE APPROPRIATE NUMBER, 1 THRU 5: 1 = "EXCELLENT" 2 = "SUPERIOR" 3 = "GOOD" 4 = "POOR" 5 = "VERY POOR" 4. Q 1. WHAT IS YOUR ASSESSMENT OF OVERALL QUALITY OF VCS FOOD SVC? Q 2. ARE YOU SATISFIED WITH HOURS OF VCS FOOD SVC. OPERATIONS? Q 3. HOW ACCEPTABLE IS THE FOOD VARIETY? Q 4. TO WHAT DEGREE IS VCS FOOD SERVICE RESPONSIVE TO ITS CUSTOMERS? Q 5. WHAT IS YOUR OBSERVATION OF THE ATTITUDE OF VCS FOOD SVC. EMPLOYEES?			
PAGE NO. 1		NO. OF PGS. 2	SECURITY CLASSIFICATION

TELEGRAPHIC MESSAGE

NAME OF AGENCY		PRECEDENCE ACTION INFO.	SECURITY CLASSIFICATION
ACCOUNTING CLASSIFICATION	DATE PREPARED	FILE	
FOR INFORMATION CALL			
NAME	PHONE NUMBER	TYPE OF MESSAGE ☐ SINGLE ☐ BOOK ☐ MULTIPLE-ADDRESS	
THIS SPACE FOR USE OF COMMUNICATION UNIT			
MESSAGE TO BE TRANSMITTED (Use double spacing and all capital letters)			
TO: Q6. ARE YOU SATISFIED WITH HOUR\$OF VCS RETAIL STORE? Q7. DESCRIBE THE APPROPRIATENESS OF THE VARIETY OF PRODUCTS SOLD IN YOUR VCS RETAIL STORE. Q8. DESCRIBE THE APPROPRIATENESS OF THE MIX OF RETAIL PRODUCTS, GIVEN YOUR FACILITY'S MISSION. Q9. ARE THE RETAIL PRODUCTS SOLD RESPONSIVE TO YOUR EMPLOYEES' NEEDS? Q10. ARE THE RETAIL PRODUCTS SOLD RESPONSIVE TO NEEDS OF YOUR PATIENTS AND THEIR FAMILIES? Q11. WHAT IS YOUR OBSERVATION OF THE ATTITUDE OF VCS RETAIL STORE EMPLOYEES? Q12. WHAT CHANGES WOULD YOU MAKE TO VCS, IF GIVEN THE OPPORTUNITY? NOTE: ALL RESPONSES WILL BE SUMMARIZED BY QUESTION, AND NO INDIVIDUAL VAMC'S ANSWERS WILL BE IDENTIFIABLE FROM THIS SURVEY. 5. PLS SEND YOUR ANSWERS TO THESE QUESTIONS IN THE FOLLOWING FORMAT BY PRIORITY TWX TO ACMH FOR ADMINISTRATION (13) BY COB MONDAY, 9/16/85: Q 1. 3 Q 2. 1 Q 3. 2 ETC. 6. YOU SHOULD FEEL FREE TO ADD ANY NARRATIVE TO YOUR ANSWERS THAT YOU BELIEVE WOULD BE HELPFUL OR INSIGHTFUL FOR THIS HEARING. THANK YOU FOR YOUR ASSISTANCE. 13/108 JBradley:51 9/12/85 13			
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STANDARD FORM 14 REVISED 11-80 GSA FPMR (41 CFR) 101-11.306		U.S. Government Printing Office 1983-001-685/2093	



Veterans
Administration

Memorandum

Date **OCT 17 1986**
 From General Counsel (023)
 Subject Reorganization of the Veterans Canteen Service
 To Chief of Staff (00B)

1. You have asked us to reconsider our recent opinion on the reorganization of the Veterans Canteen Service (VCS). Unpub. Op. G.C. (August 22, 1986). In essence, we advised that: (1) the proposed reorganization was generally unobjectionable but that the manner in which any VCS functions are reassigned under the proposed reorganization should be carefully evaluated to ensure that VCS retains its independence and "exclusive control" over its activities, as required by 38 U.S.C. § 4208; (2) VA appropriated fund activities may not lawfully support VCS activities; and (3) VCS may not lawfully execute intra-agency agreements with (and thus reimburse) other VA offices and therefore may not enter into such an agreement with the VA Inspector General's Office (IG) for the IG to perform the audit function currently performed by the VCS Audit Service. After reconsidering that opinion, we have determined that the proposed reorganization plan is largely unobjectionable. However, several key elements of the reorganization plan do raise important legal issues, as discussed below.

I. PROPOSED VCS REORGANIZATION PLAN

2. The elements of the proposed reorganization plan which raise legal issues are proposals to:

(i) transfer VCS Field Office and Central Office personnel functions and divide them among the Office of Personnel and Labor Relations, the Department of Medicine and Surgery (DM&S) Office of Management Support in Central Office and to Personnel Services in VA medical centers (VAMC);

(ii) provide VAMC Directors greater participation in Canteen operations by:

- authorizing them to select and rate Canteen Service Chiefs, subject to the concurrence of the Canteen Service Director;
- making Canteen Service Chiefs responsible to the VAMC Directors for the day-to-day operations of the Canteens and assume a more active role as service chiefs in the VAMC; and
- requiring VAMC Directors to advise and consult with Canteen Service Chiefs and the Canteen Service Director in the operation of Canteens and

2.

Chief of Staff (00B)

(iii) have VCS Audit Staff report directly to the Director of Administration.

3. In connection with the proposed VCS reorganization, the question has also been raised as to whether the Inspector General's Office (IG) may perform the audit function for the VCS, subject to reimbursement.

II. APPLICABLE LAW

4. Two legal principles govern our review of the noted elements of the proposed reorganization: (1) the VCS must retain its independence and exclusive control over all its activities; (2) VA's appropriations may only be used for the purposes for which they were made. We offer a brief discussion of these principles before applying them here.

A. VCS' Independence and Exclusive Control

5. Section 4208 of title 38, United States Code, provides:

[T]he [VC] Service shall function as an independent unit in the Veterans' Administration and shall have exclusive control over all its activities including sales, procurement and supply, finance, including disbursements, and personnel management, except as otherwise provided in this chapter [emphasis added].

In interpreting these statutory requirements, we have advised:

Since the Veterans Canteen Service is, by law an independent unit in the VA, no instructions, directives, etc., may be issued . . . which would place the Canteen Service under any degree of control or supervision by any [VA] officials other than the Director for Operations, the Chief Medical Director, the Deputy Administrator and the Administrator, with respect to performance of Canteen Service duties and functions [Unpub. Op. G.C. para. 6 (October 8, 1957)].

Clearly, however, section 4208 permits reorganizations within VCS, provided the VCS retains its statutory independence within VA and exclusive control over its activities. Unpub. Op. G.C. para. 3 (February 13, 1985).

6. It is consistent with section 4208 for elements of the VA to provide technical, policy or other guidance to the Administrator in connection with his overall supervision of the VCS or in his administration of statutes affecting VCS. For example, the Office of Personnel has agency-wide responsibility for advising the Administrator on a broad spectrum of laws concerning personnel management (including wages, hours

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Chief of Staff (OOB)

of duty, and other conditions of employment), labor relations, etc. Many of those laws affect the VCS, and, as such, the Office of Personnel may advise the Administrator on their applicability to the Service and may assist the Administrator in the agency-wide execution of those laws.

B. Appropriations Law Requirements

7. Appropriations may only be used for the purpose for which they were made. 31 U.S.C. § 1301(a); see, e.g., 64 Comp. Gen. 370 (1985). Similarly, the more specific appropriation must be used, to the exclusion of any other, where more than one appropriation is available for the same purpose. See, e.g., 31 Comp. Gen. 491, 492 (1951); Unpub. Op. G.C. para. 5 (April 18, 1985) (reorganization of DM&S); Congress makes annual appropriations for all organizational elements of the VA, with the exception of the VCS. See, e.g., Pub. L. No. 99-160, Title II, 99 Stat. 909, 924-928 (1985). Congress has also provided authority for continuing appropriations 1/ to meet the needs of the VCS:

To finance the establishment, maintenance, and operation of the Service there is hereby authorized to be appropriated, from time to time, such amounts as are necessary to provide for (1) . . . the establishment, maintenance and operation of canteens, warehouses, and storage depots . . . (3) salaries, wages, and expenses of all employees; (4) administrative and operation expenses; and (5) adequate working capital for each canteen and for the Service as a whole. Amounts appropriated under the authority contained in this chapter, [and] . . . to carry out Public Law 636, Seventy-ninth Congress, and all income from canteen operations become and will be administered as a revolving fund to effectuate the provisions of this chapter [38 U.S.C. § 4204].

1/ Our August 22, 1986 opinion expressed the view that VCS is a nonappropriated fund, and as such is not authorized to execute intra-agency agreements pursuant to the Economy Act. Unpub. Op. G.C., para. 5 (August 22, 1986) (citing 64 Comp. Gen. 110 (1984)). We have since concluded, however, that the VCS' Revolving Fund is, in fact, a legally recognizable "appropriation" because (1) the revenues which make the VCS self-supporting are public monies and, therefore, subject to Federal appropriations law (27 Comp. Gen. 296 (1947)); and (2) Congress' 1946 and 1947 appropriations to the Canteen Fund, and the statutory mechanism to provide additional monies as needed (38 U.S.C. § 4204), make the Revolving Fund, in effect, a continuing appropriation. See Unpub. Op. G.C. October 9, 1986).

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Chief of Staff (00B)

Consequently, VA elements funded by annual appropriations may lawfully use those monies only for activities within the purposes of those specific appropriations. Similarly, VCS' Revolving Fund (*id.*) may only be used to support VCS activities. The Economy Act (31 U.S.C. § 1535) does, however, generally authorize intra-agency agreements or other arrangements between elements of a federal agency where one element may perform services for another on a reimbursable basis when such an arrangement is in the Government's interests.

8. Thus, the personnel management and other VCS functions which are to remain under its exclusive control can only be performed for it by other agency elements on a reimbursable basis under 31 U.S.C. § 1535. It is important to distinguish, however, between the performance of functions for the VCS and ongoing agency-wide functions for the Administrator. Thus, this opinion is not intended to preclude departments and staff offices from furnishing policy guidance to the Administrator regarding VCS, or providing technical services of an agency-wide character which also affect VCS.

III. REVIEW OF VCS REORGANIZATION PLAN

9. In applying the legal principles deriving from section 4208 and Federal appropriations law, we offer the following comments on the proposed reorganization of VCS.

A. Transfer of VCS Functions to VACO and VAMC Personnel Services

10. We believe the transfer of all personnel functions from VCS to other organizational elements of the VA, particularly VACO and VAMC personnel services may violate provisions of section 4208 and principles of Federal appropriations law unless full reimbursement is provided from the Revolving Fund. As noted above, section 4208 mandates that VCS have exclusive control over all its activities including personnel management. Since VCS would give up its personnel management function under the proposal, it could lose the exclusive control of that function required by law. 38 U.S.C. § 4208. While we believe the Service can carry out its personnel functions through an intra-agency agreement with the Office of Personnel under 31 U.S.C. § 1535, VCS must retain ultimate control over the services performed. The proposed transfer of personnel functions would also create a funding arrangement which would be inconsistent with the principles of appropriations law discussed above. VCS is required by statute to carry out a personnel management function. The enabling statutes also make it clear that the VCS Revolving Fund is to be used to support that function. 38 U.S.C. §§ 4203(5), 4204. If the VCS personnel management function is to be carried out for the VCS by other Agency elements which are supported by annual appropriations, provision must be

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Chief of Staff (OOB)

made for reimbursement from the Revolving Fund. We do not mean to suggest that the Office of Personnel must be reimbursed when it provides services to the Administrator. Clearly that Office may provide assistance to the Administrator, whether in the nature of policy guidance, oversight, or agency-wide technical services, for example, which also affects VCS. However, because of the need to make individual determinations regarding whether a particular intra-agency arrangement for performing VCS services is consistent with section 4208, we suggest our office review any such agreements before they are put into effect.

B. Medical Center Director Participating in Canteen Operations

11. The reorganization proposal would make medical center directors the selecting and rating officials for Canteen Service chiefs, albeit with the concurrence of the Canteen Service Director. Consistent with this authority, the plan would also require those Canteen Service chiefs to largely become responsible to those directors for the day to day operation of the Canteens. In our view, this proposed role would violate section 4208. Selecting and rating VCS employees, must be viewed as a critical element of any personnel management system. See, e.g., VA Manual MP-5, Part I, Chapter 250. And section 4208 specifically requires that VCS retain independence and "exclusive control" over its personnel management. Similarly, section 4208 requires VCS to exercise exclusive control over the day to day operations of the Canteens. The proposal that the medical center director be vested with such authority simply cannot be squared with section 4208. We would, however, offer no legal objection if alternate means were developed to provide VAMC directors with an advisory role in selecting and rating Canteen Service chiefs and operating VA Canteens, provided it did not result in the directors exercising supervisory control over VCS employees or operations. The proposed reorganization plan already contemplates an advisory and consulting role for the VAMC directors as to the Canteen Service Chief and the Canteen Service Director.

C. Audit Activities

12. We find legally unobjectionable the element of the reorganization proposal requiring the VCS Audit Staff to report directly to the Director of Administration, who is the immediate superior of the Director to the VCS and has line authority over all VCS employees. See Unpub. Op. G.C. para. 6 (October 8, 1957). We also see no legal objection to the proposal for the IG to enter into an agreement with VCS pursuant to section 1535 of title 31, to perform internal audits for VCS, provided VCS retains the requisite control of that function, which we believe is required by section 4208 2/. We believe, however, that the IG cannot be reimbursed by

2/ The IG has proposed the transfer of the VCS' audit staff, and related resources, under Section 9 of the IG Act. 5 U.S.C. App. 5 9(a)(2). Section 9, however, authorizes the transfer to the IG of only those audit

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Chief of Staff (OOB)

the VCS for performing external oversight audits (ordinarily performed by the IG of other VA activities), because the IG has been funded through VA's annual appropriation to perform such audits.

IV. SUMMARY

13. A reorganization under which other Agency elements would carry out VCS personnel activities, subject to VCS having ultimate control, may be implemented through intra-agency agreements (under the provisions of 31 U.S.C. § 1535) with reimbursement from the revolving fund to the office providing the service. However, general oversight services for the Administrator need not be reimbursed. The proposal that medical center directors select and evaluate Canteen Service chiefs, and supervise day-to-day Canteen operations, would violate section 4208. The directors may be given responsibilities to provide advice in those areas, however. Finally, appropriate agreements under section 1535 may also provide for the IG to perform internal audit services for the VCS on a reimbursable basis; IG may not be reimbursed for conducting external audits which they ordinarily perform for other VA elements.

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Footnote 2 continued—

functions of a department which are properly related to the functions of the IG; and, if so transferred, would further the purposes of the IG Act. Section 9 prohibits the transfer of program operating responsibilities. We understand that the VCS Audit Staff is essentially a management tool to assist individual Canteen Service Chiefs and the Canteen Service Director maintain effective individual and overall Canteen Service operations. Section 2(3) of the IG Act shows that the IG was intended as a "means for keeping the head of the establishment and Congress" informed about problems and deficiencies in the agencies [overall] operations." Given these different purposes of the audit functions performed by the VCS audit staff and by the IG, we do not believe a transfer of the VCS audit staff would "further the purposes of this [IG] Act." *Id.* section 9(a)(2). Moreover, the functions of the VCS audit staff appear inextricably tied to the VCS' management of its individual operations, and may, therefore, be described as an operational activity, which cannot be transferred under section 9 of the IG Act. For the foregoing reasons we conclude that section 9 of the IG Act does not authorize the proposed transfer of the VCS audit staff to the IG.